

Financial Affairs
Edward Marquez, Chief Financial Officer

**SUBJECT: AUTHORIZATION TO CONTRACT WITH THIRD PARTY CLAIMS
ADMINISTRATOR AND MANAGED CARE PROVIDER**

COMMITTEE: BUSINESS AND FINANCIAL SERVICES

At the Board meeting of November 19, 2003, the Board authorized the Superintendent of Schools to enter into negotiations with Corvel Corporation (Corvel) and Gallagher Bassett Services, Inc. (GB), for Workers' Compensation Managed Care Services and Third Party Claims Administration Services, respectively, effective July 1, 2004, for an initial three year term, with the ability to extend that authorization for an additional two year period, subject to acceptable audit findings. Such authorization was pursuant to the provisions of State of Florida, Department of Education State Board Rule 6A-1.012(11), which authorizes the Board to directly negotiate and contract for third party administrators and risk management programs, and School Board Rule 6Gx13- 3F-1.021, Professional Service Contracts.

Staff and the Board's consultant, Siver Insurance Consultants, Inc. (Siver), have been reviewing various renewal proposals received from both Corvel and G-B. Based upon recommendations from Deloitte Consulting LLP (previously Deloitte & Touche, LLP), who are under contract with the Board to conduct a series of claims audits over three years, both GB and Corvel have modified their proposals to conform with recommendations which have been made by Deloitte, from the first and second years' audits.

The current year's final audit results, with staff responses, are scheduled to be taken to the Audit Committee meeting of June 29, 2004, however, the Executive Summary of that audit is being sent to the Board under separate cover as back-up information to this item. Additionally, Siver Insurance Consultants, Inc., the Board's Risk Management Consultants have provided recommendations concerning the renewal of these contracts, which is also being sent under separate cover as back-up information to this item. The recommendations regarding the contracts with Gallagher Bassett Services, Inc., and Corvel Corporation will be dealt with separately:

G-33

GALLAGHER BASSETT SERVICES, INC. – CLAIMS ADMINISTRATION

Gallagher Bassett (GB) is responsible for the handling of all claims brought against the Board, including workers' compensation, general liability, automobile liability, professional liability, as well as any other third party claims. Their responsibility includes, but is not limited to, receiving the claim information, investigating the claim, establishing a claim, including a financial reserve, which becomes critical to annual budget cycles, interaction with plaintiff attorneys, Board Attorneys, contracted third party attorneys, and Board staff. They also assume the responsibility of reporting claims to the various excess insurance companies which the Board has under contract, in order to protect the Board's interest in having the appropriate policy(ies) respond.

The third party claims administrator must provide claims services pursuant to School Board Rule 6Gx13- 3E-1.09, Claims-Settlements, wherein the Board's third party claims administrator has authority to settle claims up to and including \$15,000, with the Board Attorney's Office and the Office of Risk and Benefits Management authorized to settle cases in amounts in excess of \$15,000. Additionally, GB is responsible for complying with the Board policy and procedures for settlement of tort claims outlined in Agenda Item Replacement G-31, Board Meeting of December 9, 1987, whereby the Board relies on the provisions of sovereign immunity, provided by Section 768.28, Florida Statutes, while not waiving that immunity through the purchase of excess coverage.

Under the provisions of Gallagher Bassett's contract with the School Board, it is expected that by June 30, 2004, they will have supervised over \$40 million in claims expenditures for fiscal year 2003-2004. These claims include currently open claims which stem from accidents going back to 1974, when the Board first became self insured for workers' compensation.

For the past several years, the basis of the third party claims administration contracts has been on a per-claim fee, which included a deposit amount, based upon an estimate of claims to be incurred in any one fiscal year. Subsequently, additional fees are due as audits are conducted in intervals of 12 months, 24 months, 36 months and 48 months, as additional claims are reported to the Board. This per-claim contract basis results in audit billings which are unpredictable, making it difficult to budget properly.

Staff and Siver asked Gallagher Bassett to provide their proposal on two fee bases, including the presently utilized per-claim basis, and a flat annual contract option. Based upon the amount of the audit billings over the past few years, an analysis was completed comparing what could be the annual expenditures under both scenarios, and the option of a flat fee contract was determined to be the most cost effective, and one which would insulate the Board from fluctuations in claims administration fees. Additionally, GB was willing to include the addition of 3 full time staff members as part of their flat fee contract proposal, to comply with the Deloitte audit recommendations for per-adjuster claim counts.

The comparison of expected fees on both platforms for the recommended initial three year term are as follows:

	<u>PER CLAIM FEE</u>	<u>FLAT ANNUAL FEE</u>
FY 2004-2005	\$4,844,083*	\$4,388,000
FY 2005-2006	\$4,697,888*	\$4,388,000
FY 2006-2007	\$4,804,740*	\$4,651,280**
TOTAL 3 YEAR FEES	\$14,346,711	\$13,427,280

* includes estimated audits and projected claim counts

** includes 6% maximum increase for year 3

For fiscal year 2003-2004, the expected total fees due GB, including the deposit fee and future audits is \$3,956,251. As part of moving to a flat annual fee basis, GB has agreed to waive all future audits, except audits which become due, effective July 1, 2004, for contracts subject to the current audit provisions. The estimated waived audit savings is \$764,084. It is important to again mention that GB has agreed to increase the dedicated staff by 3 full time adjusters to comply with the 175 per-adjuster file count recommendations put forth by Deloitte.

The real value to the Board of proper claims handling, besides deciding, in conjunction with Board staff, whether to resist presented claims or accept them, is the ability to properly establish reserve amounts for incurred claims. Over estimating reserves results in the annual actuarial study performed by the Board's contracted actuary, AMI, being over-stated, leading to budgetary overstatements. Even more concerning is the under-reserving of claims, which results in expenditures which exceed budgeted amounts, as established by the actuary.

When the Board moved its claims administration from its prior vendor to Gallagher Bassett in 1994, the prior administrator's claim reserves were so understated, that following a total case reserve analysis, a budget increase in excess of \$10 million was necessary for workers' compensation expenditures alone. For the past several years, the reserves, which create the basis of establishing both anticipated short term budget expenditures, as well as long term budget acknowledgements, as required by Governmental Accounting Standards Board (GASB 10), have been much more accurate than previously, and have resulted in more predictable budgets for the Board's self insured claims.

The recommended contract with Gallagher Bassett Services, Inc., includes an effective date of July 1, 2004 through June 30, 2007, with the ability to extend the contract for two additional years, July 1, 2007 through June 30, 2009, based upon terms acceptable to the Board, as follows:

WORKERS' COMPENSATION

Dedicated Unit for Miami-Dade County Public Schools consisting of:

- 1 Branch Manager
- 10 Workers' Compensation Adjusters
- 2 Medical only Clerks
- 3 Technical Assistants

LIABILITY

- 1 Claims Supervisor
- 5 Claim Representatives
- 1 Technical Assistant

TOTAL ANNUAL CLAIM FEE -- \$4,388,000

G-B has agreed to the following contract provisions:

- ◆ Flat annual fee for the first two contract year periods (July 1, 2004-2005 and July 1, 2005–2006);
- ◆ Workers' Compensation claim inventories will not exceed 175 per adjuster (subject to a catastrophic claims scenario), so that G-B will add needed staff in the event of normal claim increases with no fee increase;
- ◆ Fees for the third year of the initial three year contract are subject to a minimum fee increase of 4%, not to exceed 6%, as well as staffing requirements.

CORVEL CORPORATION – MANAGED CARE PROVIDER

The School Board of Miami-Dade County, Florida began implementing managed care strategies for workers' compensation claims in 1988, when staff required that discounts be negotiated with medical providers. Subsequently, in 1994, the State of Florida enacted changes to Chapter 440, Florida Statutes, regarding the requirements of managed care programs for workers' compensation claimants. When the law became permissive in 2001, the Board withdrew from the State-mandated managed care program, however, it continued to contract with Corvel to provide the tenants of managed care which were value-added and cost-effective.

As a result of the first year of the Board's three-year claims audit, being conducted by Deloitte Consulting, recommendations regarding the Board's managed care program were implemented, following Board action at the Board meeting of November 19, 2003. The program enhancements, recommended by Deloitte, and approved by the Board which became effective December 1, 2003, include:

- ◆ Telephonic First Report of Injury with the use of Care MC software and electronic transmitting of First Reports of Injury to GB;

- ◆ Nurse Triage/Early Intervention including 3-point contact on each First Report of Injury; and
- ◆ Telephonic Case Management on each case, beginning the first day for up to 47 days.

The results of the second year audit, conducted by Deloitte Consulting, which will be taken to the Audit Committee on June 29, 2004, outline that the changes made to the managed care processes, as recommended in the first year audit, have been very successful. The scope of core services and dedicated staff, provided by Corvel Corporation for Miami-Dade County Public Schools includes the following:

1. 1 Unit Manager
2. Telephonic First Report of Injury – 2 Intake Coordinators
3. Early Intervention – 3-point contact
4. Telephonic Case Management for up to 47 days on lost time cases – 8 nurses
5. Medcheck provider bill review, including CorCare PPO discount applications – 1 Supervisor and 2 analysts
6. CorCare RX for all prescription and durable medical equipment needs

During negotiations of this contract, staff and Siver negotiated fees for the above-referenced services, along with access to the following services, which, when utilized in a diligent manner, will enable the Office of Risk and Benefits Management to obtain needed medical clearance to return the injured employee back to work as soon as possible:

1. Medicare Set Asides (\$125/hour)– Services include analyzing medical needs for a claimant who will become Medicare eligible, so that Medicare will pick up as much of the medical care for the qualified Medicare beneficiary as possible, thus reducing the Board's costs;
2. Life Care Planning (\$125/hour) – Services include use of a Certified Life Care Planner which projects and documents anticipated medical needs and costs for major litigated and catastrophic injuries;
3. Medical Cost Projections (\$95/hour) – Services include projections of medical needs for ongoing cases in order to assist adjuster in adequately determining financial reserves on the case;
4. Physician Consultant (\$190/hour) – Services include use of physicians in appropriate specialty (i.e. orthopedics, neurology, psychology), to assist in the direction of the cases and testify on the Boards' behalf in court, when necessary;

5. Field Case Management (\$70/hour) – Services include a nurse attending medical appointments with claimants, as well as other field services to assist the claimant to return to work;
6. Telephonic Case Management (\$70/hour)– following initial 47 day period; and
7. CorCare PT Select Therapy (fees range from \$40 - \$195 based upon tier) – Managed physical therapy program which reimburses contracted physical therapy centers global fees depending upon established criteria.

All of the above-referenced services are used on an as-needed basis, with fees paid as allocated claims expenses, from the claim file.

The pricing structure for the renewal contract with Corvel Corporation is as follows:

Flat Annual Fee - Core Services - \$840,000 (current annualized fee is \$827,917, representing a 1.4% increase)

Additional fees paid from claim file include above-referenced items, including Field Case Management (\$70/hour) and CoreCare RX Managed Care Pharmacy, fees to remain at 25% of pharmacy savings.

Corvel has agreed to evaluate staffing needs on a quarterly basis. If agreed upon staffing needs are not met, except in the case of Field Case Management, Corvel has agreed to a fee penalty of \$2,500/month, for nurses and \$1,000 per month for clerical/MedCheck employees. Any increase in staffing from agreed upon levels, as of July 1, 2004 will be subject to negotiations, and Board approval.

Corvel fees are subject to annual negotiations, not to exceed 3% annually.

The Executive Summary of the second year Deloitte Consulting report, which is being sent under separate cover, states that the Board and its strategic partners, GB and Corvel, are working in conjunction with each other to the point where the program is well-coordinated and running effectively. The report further states that a mature program, such as the Board's, creates an opportunity for the Board to focus on the development of a framework where the claims function can be managed and fine-tuned, as opposed to focusing on the day to day operations of claims management.

Along with GB and Corvel's diligent and, so far, successful efforts to make changes to their services to comply with Deloitte's audit recommendations from 2003, both have agreed to attend quarterly meetings in the future to review service, claim trends, GB/Corvel coordination of data and claims handling, and other innovative ideas regarding further improvements to better serve the Board.

Staff is seeking authorization to have the Superintendent enter into contracts with both Gallagher Bassett Services Inc. and Corvel Corporation.

RECOMMENDED:

That The School Board of Miami-Dade County, Florida:

1. authorize the Superintendent of Schools to enter into a contract for third party claims administration services with Gallagher Bassett Services, Inc., comprised of all referenced services, including, but not limited to claims establishment; reserving; investigation; settlement; excess reporting; and partnering with managed care vendor; inclusive of all reporting requirements, effective July 1, 2004, for an initial three year contract, with a flat annual fee for each of the first two years (July 1, 2004 – July 1, 2005 and July 1, 2005 – July 1, 2006) of \$4,388,000, with the third year contract, effective July 1, 2006 to July 1, 2007 to be subject to a negotiated fee increase of not less than 4%, but not to exceed 6%;
2. authorize the Superintendent of Schools to enter into a contract for managed care services for workers' compensation claims with Corvel Corporation, comprised of all referenced services, including, but not limited to, first report of injury, early intervention, telephonic case management, in –patient certification, and MedCheck bill review, CorCare PPO discounts, and partnering with claims administrator, inclusive of all reporting requirements, effective July 1, 2004, for an initial three-year contract, with a first year fee for core services, effective July 1, 2004 – July 1, 2005 of \$840,000, with each of years two and three (July 1, 2005 – 2006 and July 1, 2006 – 2007), including other managed care services paid as allocated claims expenses and outlined herein, including field case management, CorCare Rx, etc., subject to annual negotiations not to exceed 3% annually, including all staffing and financial agreements as outlined; and
3. authorize the Superintendent to extend the contracts for both Gallagher Bassett Services, and Corvel Corporation for two additional years, effective July 1, 2007 – July 1, 2008, and July 1, 2008 – July 1, 2009, subject to successful negotiations, and Board approval.

Funds for these contracts will be included in the General Fund of the 2004-2005 Adopted Budget

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