

COUNCIL ACTION FORM

SUBJECT: **HEALTH BENEFITS CONSULTING AND ACTUARIAL VALUATION SERVICES**

BACKGROUND:

The City provides health benefits to full-time and regular part-time employees including health insurance, dental insurance, prescription drug coverage, flex spending, an employee wellness plan, and optional vision coverage. The health benefit and prescription drug plans are administered by Wellmark/Blue Cross of Iowa. The dental plan is administered by Delta Dental of Iowa, and the flex spending plan is administered by WageWorks. OutcomesMTM provides additional prescription drug services.

The City has three group benefit plans including Wellmark’s Classic Blue (indemnity plan that is closed to new enrollments), Alliance Select (PPO plan), and Blue Advantage (HMO plan). These plans are “grandfathered health plans” under the Patient Protection and Affordable Care Act (ACA). As permitted by the ACA, a grandfathered health plan can preserve certain basic health coverage that was already in effect when that law was enacted. Being a grandfathered health plan means that the plan may not include certain consumer protections of the ACA that apply to other plans, such as the requirement for the provision of preventive health services without any cost sharing. However, grandfathered health plans must comply with certain other consumer protections in the ACA, such as the elimination of lifetime limits on benefits. The City can maintain the grandfathered status by limiting changes to certain aspects of the plan, including employee contributions.

City staff has managed health benefits internally for several years. However, with the rollout of the ACA, increased and changing compliance requirements, and the complexity of analyzing and valuing proposed plan changes, staff has determined that the health plans can be better managed with the assistance of contracted, qualified professionals. Those same types of professionals have already been providing actuarial valuation services for several years to comply with reporting requirements for our self-funded health plan.

On January 31, 2017, the City solicited Request for Proposals (RFPs) for health benefits consulting and actuarial valuation services for our self-funded health plan. Requested services included actuarial analysis, Accountable Care Organization (ACO) evaluation and recommendations, health plan evaluation of grandfathered status, forecasting of health claim costs, and consultation regarding plan design, rate setting and compliance with regulations. Additionally, the firm will provide assistance in evaluating our compliance needs for Cy-Ride’s variable hour employees under the

Affordable Care Act (ACA) including possible solutions or resources for tracking benefit eligibility.

The RFP was issued to 21 firms with responses received from seven firms. An evaluation committee comprised of City staff members from the Human Resources, Police and Finance Departments ranked the proposals based on the matrix provided in the RFP. Each proposal was evaluated based on a combination of cost of services; the Consulting Firm’s qualifications, benefit consulting expertise, certified actuarial personnel & resources; similar services provided for other governmental entities of similar size with self-insured health benefit plan models and the ability to benchmark those plans; references; and the availability of the team to meet our timeline. The score of each criterion was based on a scale of 1 to 10 and then assigned a corresponding weight factor. The maximum possible score, combining all five evaluators, was 4000. The qualifications, expertise, personnel and resources, similar services, references related scores represent 70% of the overall score, and proposed costs accounted for 30%. The proposed ranking and costs listed below:

Consulting Firm	Total Score	Rank	Fee Proposal for 5 Year Term
Arthur J. Gallagher & Co, Centennial, CO	5869	1	\$203,000
LMC Insurance & Risk Management, West Des Moines, IA	5824	2	\$244,000
Cottingham & Butler, Dubuque, IA	5724	3	\$150,150
Holmes Murphy & Associates, Des Moines, IA	2600	4	\$225,000
Mercer Health & Benefits, LLC, New York, NY	2325	5	\$250,000
Silverstone Group, Omaha, NE	1650	6	\$ 40,500 *
Jefferson Solutions, Clifton Park, NY	740	7	\$ 35,200 *

* provided proposal for Actuarial services only

The top three consulting teams were next invited in for interviews. All three provided a brief presentation introducing their team members and their roles and demonstrating their understanding of the scopes of services. Interviews were evaluated based on a clear understanding and clarity of the services required including responses to questions posed, the demonstration of their experience and approach with Health Benefits Consulting Services and Actuarial Services with other self-insured entities similar to ours, their cohesive approach and what sets them apart from the other firms. As with the proposal scoring, each criteria was weighted and given a score based on a scale of 1 to 10. The interview scores, with a maximum possible of 4000, are shown above.

Based on a unanimous decision by the evaluation team following the interviews, responses to follow up questions, and the determination of the best value to the City, the final three firms were ranked as follows:

Firm	Total Score	Rank	Fee Proposal for 5 Year Term
Arthur J. Gallagher & Co, Centennial, CO	5869	1	\$203,000
LMC Insurance & Risk Management, West Des Moines, IA	5824	2	\$244,000
Cottingham & Butler, Dubuque, IA	5724	3	\$150,150

Gallagher and LMC ranked very closely, though Gallagher has significantly more experience in successfully providing the services the City is requesting to similar local government health benefit plans than the other two finalists. Cottingham & Butler was rated lower in the qualitative areas but scored well primarily due to their lower cost proposal. Given the limited experience of our current staff in managing self-funded health benefit services, the selection team believed that Gallagher's expertise will best serve the City in the near term.

For actuarial services, all finalists were well qualified to provide the services requested. However, the services were proposed together in the RFP, since the actuarial data gathered for valuation can also be used for other health benefit analysis. Gallagher provides both consulting and actuarial services with company staff. LMC had a strong partnership with actuarial firm Milliman. Cottingham & Butler submitted the proposal with Nyhart, a well-qualified actuarial firm, but did not demonstrate a history of working together to provide the type of integrated services the City requested.

Funds for the services in this proposed contract will be paid from the City's Health Benefits Trust Fund. The FY 2017/18 Budget already includes \$12,000 for actuarial valuation services. Since the health benefits consulting portion of the contract was not anticipated when the FY 2017/18 Budget was assembled, that \$29,000 expense will initially come from the fund's available balance and will be included in a future FY 2017/18 budget amendment. However, no net impact on the FY 2017/18 budget is expected due to salary savings in Human Resources. Future year costs of the contract will then be included as part of the regular budgeting process and financial planning for the fund.

ALTERNATIVES:

1. Award a three-year contract with an option to renew for two additional one year periods to Gallagher for health benefits consulting and actuarial valuation services beginning July 11, 2017 to June 30, 2020, at a cost of \$41,000 in FY 2017/18, \$42,000 in FY 2018/19, and \$37,000 in FY 2019/20.
2. Direct staff to negotiate a contract for consulting services with one of the other firms that submitted a proposal to the City.
3. Do not award a contract for the Health Benefits Consulting Services and Actuarial Valuation Services Contract.

CITY MANAGER'S RECOMMENDED ACTION:

Gallagher has an extensive record of providing health benefit consulting and actuarial services to city government and public organizations throughout Iowa. Utilizing Gallagher's services will strengthen administration of City self-funded health benefits by providing actuarial analysis, evaluating and supporting compliance, and analyzing cost saving approaches such as an ACO. Awarding this contract will provide the best value to the City by providing independent professional assistance in administering our health insurance plan.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 as described above.