



# City of San Antonio

## Agenda Memorandum

**File Number:** 16-4801

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**Agenda Item Number:** 16.

**Agenda Date:** 9/8/2016

**In Control:** City Council A Session

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**DEPARTMENT:** Human Resources

**DEPARTMENT HEAD:** Lori Steward

**COUNCIL DISTRICT(S) IMPACTED:** City Wide

**SUBJECT:**

An Ordinance considering the following:

A. Third Party Administrator (TPA) for the City's self-funded Medical Plans, Flexible Spending Account (FSA) to include pre-tax reimbursement of health care and dependent care expenses, Health Savings Account (HSA), COBRA Administration, Preferred Provider Network, and Total Health Management services.

B. Pharmacy Benefit Manager (PBM) for the City's self-funded pharmacy benefits plans.

**SUMMARY:**

A. This Ordinance authorizes the City Manager or her designee to execute a contract with Health Care Service Corporation DBA Blue Cross Blue Shield of Texas in an estimated annual amount of approximately \$5,000,000 for administrative costs to provide Third Party Administrator (TPA) services for the City's self-funded Medical Plans, Flexible Spending Account (FSA) to include pre-tax reimbursement of health care and dependent care expenses, Health Savings Account, COBRA administration, Preferred Provider Network, and Total Health Management services. The term of this contract is five (5) years, beginning January 1, 2017, and ending December 31, 2021, with an option to extend the contract for two (2) years subject to and contingent upon funding and approval by City Council.

B. This Ordinance authorizes the City Manager or her designee to execute a contract with Caremark PCS Health, LLC DBA CVS Health in an estimated annual amount of approximately \$124,000 for administrative costs to provide Pharmacy Benefits Management services for the City's self-funded pharmacy benefit plans. The term of this contract is five (5) years, beginning January 1, 2017, and ending December 31, 2021, with an option to extend the contract for two (2) years subject to and

contingent upon funding and approval by City Council.

## **BACKGROUND INFORMATION:**

The City of San Antonio offers medical benefit plans to approximately 26,000 active full time civilian employees, uniformed employees, retired civilian employees and their dependents. The service of a TPA is required to process and pay medical claims through network providers that offer considerable discounts to employees, their dependents and the City due to in-network optimization programs. The TPA also manages the complex administrative and legal requirements of flexible spending accounts to assure accurate and efficient processing of employee claims; facilitates the arrangement of banking services for employees enrolled in Consumer Choice medical plans; and administers all legally mandated COBRA requirements including billing and collection. The TPA also provides Health Care Management services that address care coordination for members with chronic health conditions.

Coverage for pharmacy benefits is a significant component of the City's health care plan for all covered members. While Pharmacy Benefit Manager (PBM) services for City of San Antonio employees are currently included in the overall services provided by a single TPA, Human Resources desired to explore the feasibility of contracting separately with a vendor that specifically provides PBM services.

The current contract with United Healthcare for third party administration of the self-funded medical plan, administration of flexible and health care spending accounts, COBRA, case management services, and pharmacy services expires on December 31, 2016.

## **PROCUREMENT PROCESS:**

The Finance Department, Purchasing Division on behalf of the Human Resources Department released a Request for Proposal (RFP) on February 17, 2016 soliciting proposals from firms with broad knowledge and experience as third party administrators that offer sophisticated and innovative tools and resources for the administration of the City's medical plans, pharmacy plan, FSA/HSA spending accounts, a robust provider network for physicians and facilities within San Antonio and outside Texas, case management programs for high cost claimants and a disease management program that can be controlled by adherence, and proven options for reducing high costs associated with out-of-network services. Firms could bid for all services, for the medical TPA services only, or for the Pharmacy Benefit Manager services only. The RFP was advertised in the San Antonio Express-News on February 18, 2016. A pre-submittal conference was held on February 25, 2016, to allow for Respondent questions and clarification to the RFP. Twelve (12) proposals were received by the April 6, 2016 submission deadline. The ten-member Evaluation Committee included representatives from the City Manager's Office, Human Resources Department, Finance Department, San Antonio Police Officers Association, the Retired Employees of the City of San Antonio, the Employee Management Committee, and the private sector with individuals from NuStar Energy and Holt Cat. The San Antonio Professional Firefighters Association declined to participate.

Three (3) proposals were deemed non-responsive for evaluation as they either failed to meet the pricing

requirements for the entire contract term or failed to meet the proposal and pricing requirements of a TPA. Three (3) responses were evaluated for comprehensive services (both medical TPA and PBM services), three (3) responses for medical TPA services only, and six (6) responses were evaluated for PBM services only.

The evaluation of each proposal response was based on a total of 100 points; 20 points allotted for experience, background, qualifications; 40 points allotted for proposed plan and 20 points allotted for Respondent's price schedule. Five (5) preference points were allotted for the Small Business Economic Development Advocacy (SBEDA) Program - Mentorship Incentive program. In addition, ten (10) points were allotted for the Local Preference Program and five (5) points for the Veteran-Owned Small Business Preference Program.

The Evaluation Committee interviewed all of the responsive firms. On July 19, 2016, the Evaluation Committee reconvened to finalize discussion and score the proposals for experience, background and qualifications, and the proposed plan. The City's Benefits Consultant, Gallagher Benefit Services, was present during all meetings to provide technical support to the committee and also performed the evaluation and scoring of the price schedule.

At the conclusion of the Evaluation Committee scoring, Blue Cross Blue Shield of Texas (BCBSTX) was the highest scoring medical TPA/PBM provider. When scores for the remaining evaluation criteria were introduced, including the SBEDA Mentorship Incentive Program points, Aetna became the highest ranked respondent. In order to receive the five points for the Mentorship Incentive Program, a vendor had to complete the following two steps: 1) complete the Mentorship Incentive Commitment Form and submit with the proposal response; 2) submit on-line mentor application form through Alamo Community College District's Corporate College program administrator. While BCBSTX completed the first step and expressed their willingness to serve in a mentorship role, the firm did not complete the second step and therefore did not receive the five (5) points. This administrative oversight by BCBSTX changed the outcome of the procurement process.

On May 19, 2016, the SBEDA Ordinance was amended and included an item to consolidate the two step process for qualification of points under the mentor protégé program to one step. For ease of implementation, this change was made effective for procurements issued after July 1, 2016. In previous high profile solicitations issued over the past three years, there have been instances where respondents have failed to complete the second step under the SBEDA Program and did not receive the five points for the mentor protégé program. However, in these instances, it had no effect on the outcome of the procurement. In this particular procurement, the administrative oversight by BCBSTX not completing the second step changed the outcome of the evaluation process.

Had the administrative oversight by BCBSTX on the second step for the mentor protégé program not occurred, BCBSTX would have been awarded the five (5) points and would have scored the highest. In reviewing the procurement process and developing a recommendation, staff took this issue into consideration as well as a number of other items. Additionally, the City requested proposals for pharmacy benefit management to determine the overall feasibility and benefits of having a separate Pharmacy Benefit Manager. Based on a comprehensive review, staff is recommending that BCBSTX be awarded the contract as the Third Party Administrator for Medical Plans and Spending Accounts, and Caremark PCS (CVS Health) be awarded the contract as the Pharmacy Benefit Manager. These recommendations take into consideration the following:

- Administrative oversight by BCBSTX on mentor protégé program effected the final outcome of the

evaluation process;

- Two step process for the mentor protégé program was changed to one step in May 2016 in recognition of the possibility of an administrative oversight effecting the outcome of a solicitation;
- Eight of the Ten Evaluation Committee Members scored BCBSTX highest for background, experience, and qualifications, and proposed plan;
- BCBSTX had the best score under the pricing criteria;
- Of the three respondents for medical TPA services, BCBSTX has the broadest network;
- Favorable differential in the re-pricing of one year of the City's claims data between the BCBSTX/CVS option and the Aetna/CVS option;
- BCBSTX has the lowest TPA administrative fee of the three respondents for TPA services;
- CVS had the highest score of the Pharmacy Benefit Managers;
- Additional value to the City for contracting separately for pharmacy benefit management;
- BCBSTX and CVS will provide for the real time integration of claims data; and
- While pharmacy benefit management will be separate and typically result in separate insurance identification cards, BCBSTX and CVS will generate one insurance identification card for members.

#### **ISSUE:**

- A. Award of this contract with BCBSTX will allow for cost-effective management of the City's health plans and broad provider networks for all plan participants, administration of the flexible spending and health savings account arrangements, administration of COBRA benefits, and health management services. These programs are an integral part of the City's Employee Benefits Program.
- B. Award of this contract with Caremark PCS Health, LLC DBA CVS Health will allow for the efficient management of the City's pharmacy benefits which are a significant component of the City's health care plans.

#### **ALTERNATIVES:**

- A. The current contract with United Healthcare will expire on December 31, 2016. An alternative to the award of this contract would be the execution of a contract extension with United Healthcare, subject to agreement. The evaluation of the current respondents to the RFP would expire and require a request for proposal the following year for a contract effective January 1, 2018.

- B. The selection of a separate vendor for pharmacy benefit management services responds to the City's desire for competitive pharmacy pricing and improved outcomes for plan participants. The alternative to the award of this contract would be the execution of a contract extension with United Healthcare, subject to agreement. The evaluation of the current respondents to the RFP would expire and require a request for proposal the following year for a contract effective January 1, 2018.

**FISCAL IMPACT:**

- A. The estimated annual administrative cost of this contract is approximately \$5,000,000. Funds are included in the FY 2017 Proposed Employee Benefits Insurance Fund. As the contract becomes effective January 1, 2017, the impact of the administrative fee for this contract in FY 2017 is estimated at \$3,750,000. Subsequent years are subject to and contingent upon funding and approval by City Council.
- B. The estimated annual administrative cost of this contract is \$124,000. Funds are included in the FY 2017 Proposed Employee Benefits Insurance Fund. As the contract becomes effective January 1, 2017, the impact of the administrative fee for this contract in FY 2017 is estimated at \$93,000. Subsequent years are subject to and contingent upon funding and approval by City Council.

**RECOMMENDATION:**

- A. Staff recommends approval of this ordinance to execute a contract with Health Care Service Corporation DBA Blue Cross Blue Shield of Texas in an estimated annual amount of approximately \$5,000,000 for administrative costs to provide Third Party Administrator (TPA) services for the City's self-funded medical plans, Flexible Spending Account (FSA) to include pre-tax reimbursement of health care and dependent care expenses, Health Savings Account, COBRA administration, Preferred Provider Network, and Total Health Management services. The term of this contract is five (5) years, beginning January 1, 2017, and ending December 31, 2021, with an option to extend the contract for two years subject to and contingent upon funding and approval by City Council.
- B. Staff recommends approval of this ordinance to execute a contract with Caremark PCS Health, LLC DBA CVS Health in an estimated annual amount of \$124,000 for administrative costs to provide Pharmacy Benefits Manager services for the City's self-funded pharmacy benefit plans. The term of this contract is five (5) years, beginning January 1, 2017, and ending December 31, 2021, with an option to extend the contract for two years subject to and contingent upon funding and approval by City Council.

This contract is procured by means of Request for Proposals and Discretionary Contract Disclosure Forms are attached.