



Date: \_\_\_\_\_ April 9, 2007

Committee Meeting Date: \_\_\_\_\_ April 19, 2007

Board Meeting Date: \_\_\_\_\_ May 3, 2007

**BOARD MEMORANDUM**ACTION  DISCUSSION \_\_\_\_\_ INFO \_\_\_\_\_

**TO:** Administration and Finance Committee  
 Santa Clara Valley Transportation Authority  
 Board of Directors

**THROUGH:** Michael T. Burns  
 General Manager

**FROM:** Bill Lopez  
 Chief Administrative Officer

**SUBJECT:** Contract for Workers' Compensation Third Party Administrator Services

**RECOMMENDATION:**

Authorize the General Manager to execute a fixed fee contract with Tristar Risk Management for Workers' Compensation Third Party Administrator (TPA) claims services for a three year term, from July 1, 2007 through June 30, 2010, with an option for two additional one-year extensions. The total three-year contract cost for claims service is not to exceed \$3,759,866 and the total 5-year contract cost is not to exceed \$6,488,741.

**BACKGROUND:**

VTA's Workers' Compensation (WC) Program is self-insured and utilizes the services of a TPA for WC claims administration services. The TPA administers WC benefits for industrially injured employees as required by the California Labor Code, including investigation, adjustment, and resolution of litigated and non-litigated claims. The recommended TPA will handle approximately 400 new claims per year and assumes responsibility for 813 pending WC claims.

On May 2, 2002, the VTA Board of Directors awarded a three-year contract with two, one-year options to ESIS Incorporated for TPA services for the period from July 1, 2002 through June 30, 2007. The two, one year options were exercised for a total authorized contract value of \$6,837,966.

In the past the TPA was also responsible for arranging for medical management and medical bill re-pricing services. The bills for these services included the cost of the administrative fee

arrangement between the TPA and the provider. The fees were charged to the claims file as allocated expenses, not to the contract, per normal industry practice.

The arrangements for medical management and medical bill re-pricing services have been “unbundled” from the new TPA’s responsibilities. VTA proposes contracting directly with the service providers for a substantial fee reduction. This approach has been under development by VTA since last summer, and is consistent with Hay report recommendations. These contracts will be presented in other Board memos during this meeting. There will be no in-house administrative costs incurred as a result of this change. See attachment A.

**DISCUSSION:**

A request for Proposals for TPA services was issued on January 24, 2007 and notices were sent directly to 25 firms. In addition, advertisements soliciting proposals were placed in Business Insurance Magazine, (a weekly national insurance professional publication), the San Jose Business Journal and listed on VTA.org.

A Pre-proposal Conference was held on February 9, 2007. Representatives from 11 firms attended the conference. On February 28, 2007 the VTA received ten proposals as follows:

<b>PROPOSER</b>	<b>3 YEAR FIXED FEE</b>	<b>5 YEAR FIXED FEE</b>
*Claims Management Inc.	3,049,000	5,279,000
*Intercare Insurance Services	3,452,086	5,952,283
Francis Claims Services	3,739,054	6,342,870
<b>*Tristar Risk Management</b>	<b>3,759,866</b>	<b>6,488,741</b>
Acclamation Ins Services	4,191,547	7,199,680
Cambridge Integrated Services	4,368,928	7,497,303
Sedgwick CMS Services	4,333,214	7,527,581
**ESIS, Incorporated	6,238,778	10,824,970
Hazelrigg Risk Management	Incomplete	Incomplete
Athens Administrators	3,997,321	Incomplete

\* Finalists; \*\* Incumbent

A selection panel composed of the VTA’s Risk Manager, Claims Supervisor, WC Claims Analyst and Contract Administrator evaluated written proposals according to pre-determined selection criteria. The selection criteria included: qualifications of the firm, qualifications of key project staff, demonstrated understanding of the project as evidenced by the proposer’s work plans, local business preference and cost.

Cost alone is not an appropriate criterion. The ability to effectively control WC costs is driven by the technical experience, quality, stability and complement of the examining staff. In addition a versatile information system is required to produce the reports and analysis to identify loss control issues, payments and processing improvements. The TPA must have sound financial

controls in place to support banking arrangements, and prevent overpayments or duplicate payments in the processing of over 800 VTA checks per month.

After the selection panel's evaluation process the three top ranked firms, Claims Management Incorporated (CMI), Intercare Insurance Services, and Tristar Risk Management were selected as finalists. On March 26, 2007 and March 28, 2007 the panel members conducted on-site interviews, staff testing and tours of the finalists' local offices. Based on their performance in both the interview and proposal process, Tristar Risk Management has been selected as the recommended firm for the contract award.

Tristar Risk Management was established in 1987 and is the tenth largest third party administrator in the United States. The firm employs more than 500 employees. Tristar Risk Management is privately owned, and headquartered in Long Beach, California. They have a total of 9 claim offices in California. See Attachment B for Firm contact and location information. They have both public entity, (Transit, County and School District) and private transportation clients with experience working with a unionized workforce. Tristar is the current TPA for the Orange County Transit Authority. Tristar's work plan demonstrates a clear understanding of the project requirements and the proposed cost is competitive among the finalists based on VTA's required program elements.

Of the three finalists, they had the only established claims office in the Bay Area and will provide a dedicated staff working from their existing Walnut Creek facility, which has a WC dedicated Claims Manager on staff. They were the only finalists to present a qualified existing supervisor who received a score of 100% on VTA's administered technical skills test. They own a claims personnel recruiting agency and have identified additional qualified candidates to staff the VTA claims team. Tristar was also the only firm of the finalists to propose adequate staffing as outlined in the request for proposal.

The other two finalists proposed establishing new offices in the bay area, recruiting all new staff, fewer examiners at less competitive salaries, and management from remote locations. Recruiting examining staff in the bay area is highly competitive. Tristar's experience in recruiting in the area and use of their wholly owned recruiting business offered the best formula for success.

VTA's Fiscal Resources staff reviewed the three finalists' financial security and banking procedures and found that Tristar had the most effective program in place. Tristar uses a claims administration system that exceeds VTA's Risk Management reporting requirements. The system is the latest version of a well-recognized software developed specifically for the administration of California self-insured WC claims.

The selection committee contacted Tristar Risk Management's client references. These public agency clients have similar unionized environments and claims experience. Tristar Risk Management has maintained two to seventeen year business relationships with these clients and had successfully achieved loss cost reductions in each of their WC programs. The clients were highly satisfied with the quality of the claims services and management responsiveness to business concerns.

### **ALTERNATIVES:**

An alternative is to reject the recommended bidder and direct staff to conduct a new, and if desired, restructured RFP process. This is not recommended, as the process was lengthy, costly, and objective. In addition, a new process would not provide sufficient time for business systems transitions necessary for a new provider within the term of the current contract.

Another alternative is to fully insure the program. In March 2000 an analysis of the most competitive insurance carrier proposals demonstrated that self-insuring the WC program, with TPA services contracted, continues to be the most cost-effective approach. Although WC insurance rates have improved in California in recent years, and VTA's loss experience is in a downward trend, VTA is still not an attractive risk to insurers based on loss experience. It is unlikely that the VTA would draw the substantially lower premium rates at this time.

### **FISCAL IMPACT:**

The funding for TPA services is included in the proposed FY 08 and FY 09 budgets.

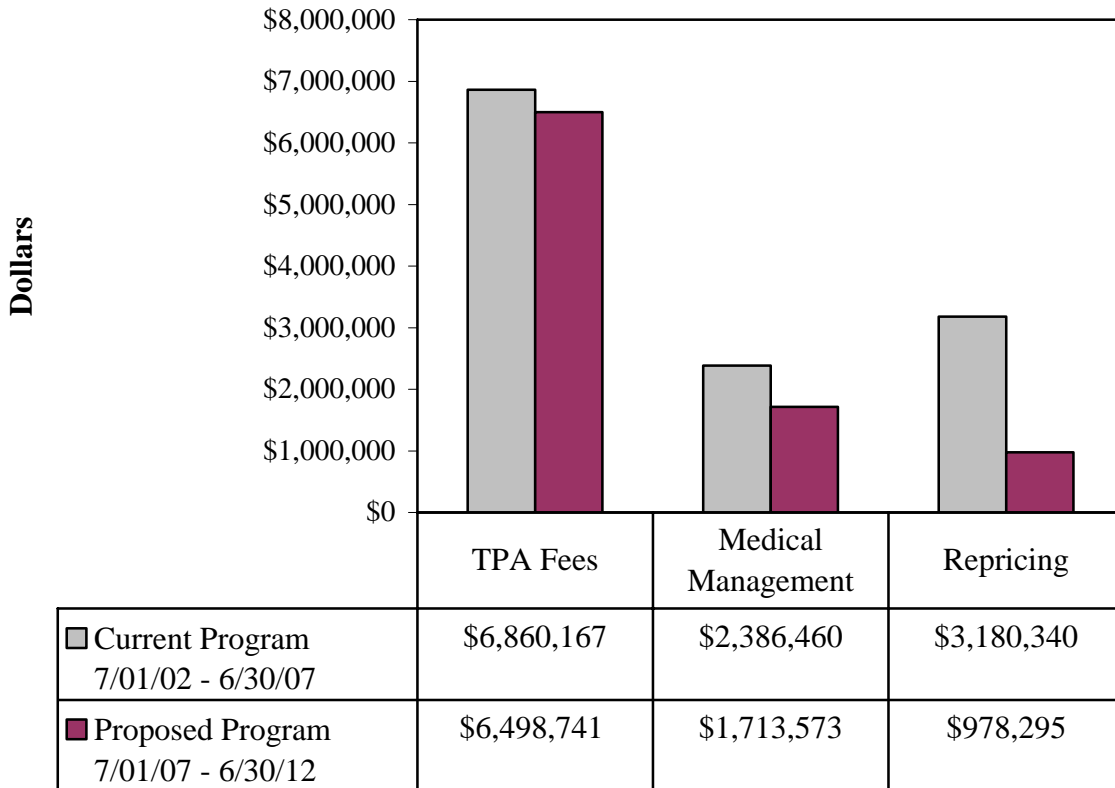
### **SMALL BUSINESS ENTERPRISE (SBE) PARTICIPATION:**

Based on the limited scope of work and no subcontracting opportunities, a No Specific Goal (NSG) has been established for this contract. The contractor is encouraged to make reasonable efforts to utilize SBEs in its procurement of ancillary services and products associated with the performance of this contract.

Prepared by: Nanci G. Eksterowicz, Risk Manager

**Attachment A**

## Workers Compensation Model Comparison



### Total Projected Five Year Savings

Five Year Period	TPA Fees	Medical Management	Repricing	Total
7/01/07 – 6/30/12	(\$ 361,426)	(\$ 672,887)	(\$2,202,045)	(\$3,326,358)

**RISK MANAGEMENT DEPARTMENT**

**Listing of Recommended Vendor for RFP 07-01  
Workers Compensation Third Party  
Claims Administration Services**

**Tristar Risk Management**

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