



Department of Employee Relations

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May 13, 2016

To the Honorable Members
Finance and Personnel Committee
Common Council
City of Milwaukee

RE: CC File #160015 - Resolution relating to a contract with a third-party administrator for the provision of workers' compensation services.

Dear Committee Members;

Common Council file #160015 is a resolution authorizing the Department of Employee Relations (DER) to enter into an agreement with Gallagher Bassett, Services Inc. for the provision of third party administrator and risk management services to the City of Milwaukee. This resolution follows the Council's approval in September of 2015 (CC File#150625) of a resolution authorizing DER to explore the use of a third-party administrator (TPA) for Worker Compensation services.

The need to explore the use of a TPA for the aforementioned services stemmed from the acknowledgement that while we have achieved significant reductions in the number of claims, recordable cases, and the overall incidence rate since the implementation of a Risk Management Program in 2009, average costs per claim continue to increase. In general, such increases may be attributable to increases in medical costs, costs resulting from more severe claims, and the aging demographics and comorbidities of the City's workforce.

These cost drivers require an investment in comprehensive utilization review interventions (appropriateness and necessity of care), clinical management tools, and predictive analytics. Since the City does not have the internal resources or technical expertise to provide those interventions, we have to rely on vendor partnerships at a significant cost.

It is generally understood and accepted by industry professionals that TPAs are in the greatest position to provide services to injured employees and increase case management strategies for better health outcomes, including expedited return to work, and to some extent greater financial outcomes in the form of expenditure reductions. It is also known that TPAs comply with industry best practice standards when it comes to closure rates, claim investigations, medical case management, and medication management.

The majority of Wisconsin counties and municipalities do not self-administer worker compensation benefits. They are reluctant to absorb the responsibility and risk associated with claims administration. The City should consider entering into a contract with a TPA for the reasons stated below:



- A TPA has the expertise in claim administration - from intake of the claim to investigation to adjudication. Their sole business focus is claims service and as a result they are able to attract expert staff from insurance and claims industries with wealth of knowledge and expertise;
- A TPA has the internal infrastructure (technology, trained staff, third party relationships, and other clinical and administrative resources) that lead to more effective/efficient streamlined process both for the employee and for the employer;
- A TPA has internal resources dedicated to regulatory compliance and analytics;
- A TPA assumes the full responsibility of maintaining, upgrading, and troubleshooting the claims management system that supports the function, allowing the employer to focus on policy and operational decisions impacting safety, return to work, and productivity;
- A TPA has access to benchmark information regarding similar industries and proven best practices that can be shared with a client; and,
- A TPA provides an opportunity to achieve better managed care savings-either from better access to preferred provider discounts, specialty nurse reviews, and better prescription drugs discounts.

A comprehensive Request for Proposal (RFP) process was initiated in September of 2015 per Common Council resolution #150625. Our Committee, composed of representatives from the Budget and Management Division, the City Attorney's Office, DER, and the Milwaukee Public Schools with the assistance of a broker from Willis Tower Watson, the City's health care consultant, reviewed and analyzed 13 RFP responses. Oral presentations coordinated and facilitated by the broker were conducted with the top four finalists. As a result of the oral presentations, the Committee decided to conduct site visits of the top three proposers in Chicago, Waukesha, and Milwaukee. After conducting thorough references with representatives from Harley Davidson, Ashley Furniture, Broward County Sheriff's Office, the state of Connecticut, and the Miami County Public Schools, and assessing opportunities to negotiate different terms within specific areas of the proposal, the Committee unanimously recommended Gallagher Bassett (GB) Services, Inc. located in the City of Milwaukee, 115 S. 84th St. Suite 215, as the TPA for the City of Milwaukee.

GB has been providing risk management services since 1962 and within the state of Wisconsin since 1981. The Milwaukee office currently services clients within the hospitality, health care, manufacturing, temporary employment, trucking, agriculture, and construction industries. They have an impressive list of private sector clients in the state of Wisconsin including: Marcus Corporation, Johnsonville Sausage, Kohler Corporation, Menards, Quad Graphics, Journal Communications, Marquette University, and MMSD.

GB's approach to claims management relies on an integrated approach that:

- provides timely and compassionate interaction to injured employees,
- utilizes clinical management tools to identify outcomes based networks,
- relies on predictive analytics to assess claim risk and control cost drivers, and,
- identifies loss trends and appropriate interventions.

GB has expressed a strong commitment to help the City in the area of loss control, where we have made some improvements, by offering loss prevention and risk assessment services, at the onset of the agreement at no cost. Finally, their customer service philosophy is backed by a mobile application and on line access to claim status and claim payment information for injured employees.



A cost benefit analysis of GB's proposed model for handling the City's account working in partnership with a small in-house staff responsible for overseeing the contract and coordinating disability placement and loss control services reveals that partnering with GB for TPA services is the right thing to do. GB's immediate and on-going interactions with injured employees will not only support the injured employee's safe return to work at the earliest possible date but will also result in industry standard adjusting and case management practices and savings. This along with the utilization of outcomes based networks, timely engagement of clinical dedicated resources, and pharmacy benefit management interventions lead to an overall financial improvement of 6%. In addition, the value added services that would be included in the agreement with GB (nurse triage as part of the claim intake process, the use of a fraud detection tool for all claims, automatic OSHA reporting capabilities, 180 hours of loss control services, and a dedicated nurse case manager) will provide an additional financial improvement of 4%, bringing the total estimated improvement to 10% of an SPA budget of \$12M.

If this resolution is approved, it is anticipated that a project implementation plan will result in a go-live date of September of this year. The proposed model assumes current employees will be either retained in a different capacity to work with GB or placed in vacant positions within DER or other city department. Of the 14 positions currently funded in the Worker's Compensation Division, 5 are currently vacant and one additional one will become vacant in the next month. After accounting for four positions that will remain to oversee the contract and work with the TPA, we will have four remaining positions- two administrative support and two adjusters. We are committed to a transition plan that will result in no layoffs of current city employees. We anticipate continuing to work with the employees to find suitable placement throughout the rest of the year and into 2017, if necessary.

I look forward to the opportunity to discuss this recommendation with Committee members. I am available to answer your questions and concerns prior to the hearing on May 18th.

Sincerely,

Maria Monteagudo
Employee Relations Director

