

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Chief Executive Office

BOARD AGENDA # B-7

Urgent

Routine

AGENDA DATE October 18, 2011

CEO Concurs with Recommendation YES NO

4/5 Vote Required YES NO

(Information Attached)

SUBJECT:

Approval of the Formation of a Self-insured Program for Health Insurance, Authorization for the Chief Executive Officer to Negotiate All Related Agreements, Approval of an Agreement With Capitol Administrators for Third Party Administrator Services, and Approval to Implement the County's New Medical Insurance Program as a Self-Insured Funding Model

STAFF RECOMMENDATIONS:

1. Approve the formation of a self-insured program for health insurance.
2. Authorize the Chief Executive Officer to negotiate all agreements related to the implementation of the self-insured funding strategy.
3. Approve an agreement between the County and Capitol Administrators to serve as Third Party Administrator of the Stanislaus County Partners in Health medical plan.

- Continued on Page 2 -

FISCAL IMPACT:

The County currently spends approximately \$40.5 million annually for medical insurance coverage with approximately 30% of these costs paid through General Fund departments. There are approximately 3,440 current benefit eligible employees in Stanislaus County who also contribute an estimated \$4.8 million annually to the medical insurance program through premium cost share formulas based on their individual health plan selections. The County also extends the County sponsored medical plans and insurance rates to retired County employees under age 65 (pre-Medicare) and to employees of 10

BOARD ACTION AS FOLLOWS:

No. 2011-640

On motion of Supervisor Withrow, Seconded by Supervisor O'Brien

and approved by the following vote,

Ayes: Supervisors: O'Brien, Chiesa, Withrow, DeMartini, and Chairman Monteith

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None


1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:



ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

Approval of the Formation of a Self-insured Program for Health Insurance, Authorization for the Chief Executive Officer to Negotiate All Related Agreements, Approval of an Agreement With Capitol Administrators for Third Party Administrator Services, and Approval to Implement the County's New Medical Insurance Program as a Self-Insured Funding Model
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STAFF RECOMMENDATIONS CONTINUED:

4. Approve implementation of the County's new medical insurance program as a self-insured funding model effective January 1, 2012.
5. Authorize the Auditor-Controller to create the necessary budgets to implement the County's self-insured medical plan model.

FISCAL IMPACT CONTINUED:

local special districts. There are approximately 500 retiree and special district plan participants who pay 100% of their individual premium costs for participation in the County sponsored medical insurance program.

This agenda item includes recommendations to adopt a new funding strategy for employee medical insurance programs and to implement a new health plan option based on a non-profit financing model. The County's existing strategy of purchasing fully-insured medical programs is dependent upon traditional annual insurance underwriting procedures which dictate the rates available to the County from each of the County's insurance providers. In a fully-insured purchasing environment, the County has minimal access to the information necessary to evaluate the underlying costs and financial performance of the medical insurance program. County insurance premiums have increased an average of 11.5% each year since the 2005 plan year under the current fully-insured funding strategy and are projected to increase 12% for the overall employee population in 2012 under the existing health plan structure.

Based on the findings and conclusions in this report, County staff recommend the implementation of a new self-insured medical funding strategy effective January 1, 2012. County staff also recommend the formation of a new medical plan option based on a non-profit business model supported by multi-year agreements with key health providers in the local community. Implementation of these two key strategies will support the County's goals for establishing long-term fiscal stability in the employee medical benefits program and providing the County the information necessary to evaluate the overall performance of the program. Based on the implementation of these recommendations, the County expects to maintain an overall cost structure in 2012 similar to the base costs charged in 2011. The net effect of this change will produce savings to the County and employees by avoiding the projected 12% increase in overall insurance premiums in 2012.

Direct costs to County departments for the medical insurance program are determined by labor agreements negotiated with all County labor organizations which identify contribution levels for employees and the County. The County has worked closely with labor organizations over the last several months to evaluate the proposed changes in the medical insurance program. As of October 14, 2011, the County has reached agreement with 10 of the County's 12 bargaining units to adopt cost savings proposals in support of the new health

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insurance program. Those agreements will be considered by the Board of Supervisors through a separate Board Agenda Item on October 18, 2011. The County will continue to work with the remaining two bargaining units through the appropriate meet and confer process to evaluate medical insurance options and employee contributions.

DISCUSSION:

Background

Stanislaus County has continued to experience significant increases in employee medical insurance costs well above normal inflationary indexes in our overall economy. The County has funded employee medical insurance programs each year through a process of seeking proposals and purchasing fully-insured medical plans for employees on an annual basis. This process has resulted in the County offering a number of health insurance options over a short period of time with plan selection based on which insurance carrier may provide better pricing in any given year. While this strategy has proven useful in developing short-term funding solutions to provide a variety of low cost health care options for employees, this short-term strategy does not support an environment of understanding and managing the underlying costs which drive total medical expenditures and premium inflation. This strategy has also proven more challenging as fewer insurance carriers are available to offer fully-insured health programs throughout California and in the local community.

Stanislaus County's fully-insured health insurance premium rates have increased on average 11.5% annually since the 2005 plan year and were projected by the current health plans to increase 12% for the overall employee population in 2012. Actual healthcare claims paid by County health plans have increased cumulatively by more than 45% over the past three years for the average County employee. This growth in claims cost represents a significant factor in the ongoing inflation in the County's insurance premiums. While costs continue to grow, the County's existing strategy of annually purchasing a variety of fully-insured medical plans does not allow the County to fully evaluate those costs through an analysis of changes in unit cost for medical services or increases in employee utilization.

Consultant Engagement and Recommendations

In the spring of 2010, staff from the Chief Executive Office initiated a thorough assessment of the efficiency and effectiveness of the County's existing health insurance program. It was determined a detailed analysis needed to occur to support the County in making strategic decisions in regard to its employee health insurance plan. Sidles Duncan & Associates (SDA), a management consulting firm, was engaged as a consultant to implement a multi-phase analysis and construction of a health benefit program for the County. The consulting analysis yielded critically important information for the County which was used in developing the health insurance strategy for the 2012 plan year and beyond. The project work with SDA has spanned three phases.

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The first phase involved assessing all County health plan financial data, creating a global clinical profile of County enrollees, identification of clinical gaps and development of clinical and financial goals. This process proved challenging in an environment with fully-insured medical plans. Access to detailed information and data regarding the actual costs of the County's medical plans was very difficult to obtain or not available in a fully-insured environment. The inherent lack of transparency proved challenging in assessing the true value, effectiveness and financial performance of the County's current health insurance programs. This phase of the project clearly demonstrated that having a complete understanding of your claims and associated health care pricing systems was critical for the organization to develop effective management strategies for the overall health care program.

The second phase involved developing a strategic plan with specific goals and objectives, designing an alternative benefit plan and provider network to align with the plan, creating a financial structure including the assessment of a self-insured versus fully-insured strategy, and initiating contracts with providers and health systems.

Significant findings and recommendations from the first two phases of work from SDA include the following:

- *The inherent lack of transparency in a fully insured arrangement significantly limits the County's ability to assess the effectiveness of its health plan vendors and insurers and to measure the cost/value relationship between what the County pays and what it receives in return.*
- *Bidding for fully-insured contracts among multiple insurers or managed care organizations requires underwriters to price for uncertain risk which manifests itself in higher margin, risk charges and premium rates.*
- *The duplication of services and inherent lack of competition in regards to pricing in the local community results in higher costs for health care benefit plan sponsors throughout Stanislaus County.*
- *The County should self-fund its health plan.*
 - *Provide for a common plan design for all employee medical plans*
 - *Reduce the administrative cost of managing the plans*
 - *Capture savings associated with elimination of risk based capitation charges*
 - *Establish full transparency to better understand the value proposition inherent in the plan options offered to County employees, and measure the financial and clinical performance of the plans*
- *The County should combine its health benefit plan offerings into a single risk pool.*
 - *Reduce insurance charges for large claims*
 - *Improve marketability of stop loss insurance program*
 - *Establish greater predictability through creation of a larger single risk pool*

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- *County should introduce and foster the development of a competitive health care choice model in the local community to support a long-term strategy for providing quality employee healthcare.*
- *The County should own and maintain independent control over financial and utilization data across all plans*
 - *Maintain independent control over underwriting and rate determination annually through the use of independent actuarial analysis*
 - *Independently evaluate plans offered based upon their financial and clinical performance in meeting the needs of their covered populations, not on the premium rates assigned to the populations they cover*
 - *Maintain control over ability to change plans and strategies over time with the benefit of comprehensive utilization and financial data*
- *All County health plans should support common goals for quality and performance, including:*
 - *Maintaining a high degree of hospital-physician integration and alignment*
 - *Demonstrated clinical quality and systemic adherence to evidence based clinical guidelines*
 - *Competitive financial arrangements*

In follow-up to these recommendations, County staff worked closely with SDA through multiple meetings with health plan administrative officers and representatives in the local community to communicate the County's desire to develop a long-term strategy and new business partnerships for improving employee health care programs. These meetings resulted in an improved understanding of the local medical provider community and the availability and interest of the key health systems to engage in developing a new locally based health plan option in alignment with County goals.

In conjunction with the development and analysis of a new locally based health plan option, SDA representatives worked with the County's existing health insurance providers to evaluate potential options for continuing the County's current fully-insured health plans or converting those health plans to a new self-insured model. Proposals were evaluated from the County's existing health insurance partners (Kaiser Permanente and Anthem Blue Cross), as well as potential new partnerships with additional insurance providers and key health systems in the community.

Based on the financial and clinical modeling conducted in the first two phases of work completed by SDA, County staff initiated a strategy to transition the County's current health plans to a new self-insured funding strategy and the addition of a new Exclusive Provider Organization (EPO) medical plan option to add to the existing medical plans offered with Anthem Blue Cross and Kaiser.

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SDA is currently assisting the County with the third phase of the project, which includes the coordination and implementation of the EPO medical plan and all related activities necessary for the January 1, 2012 startup. Specific tasks include transitioning existing health plans, providing technical support to County staff and labor groups during employee negotiations, coordinating with the County on the Request For Proposal (RFP) process associated with project vendors, developing and testing a data management strategy and reporting requirements for the new health plans and implementing communications initiatives to support plan changes.

Development of the Stanislaus County Partners in Health EPO

SDA staff have designed a new Exclusive Provider Organization, Stanislaus County Partners in Health (SCPH) to support the County's goal of creating a long-term employee health care strategy. SCPH is a new non-profit health care program focused on providing access to high quality medical services in the local community. SDA staff and their partners have developed numerous agreements throughout the community to provide employees access to a large network of local hospitals, primary care and specialty physicians under the new SCPH medical plan. Employees enrolling in SCPH may also access care outside of the local community through access to a national network of over 590,000 health care professionals and 4,200 hospitals. The SCPH plan design also provides flexibility for employees through access to dedicated Nurse Care Advocates, available to assist employees by phone or email with their immediate health care needs or to help obtain appointments with specialists and coordinate referrals with Regional and National Centers of Excellence programs. SCPH has established multi-year agreements with key local health providers throughout the community, including Tenet Health Systems providing access to Doctor's Medical Center. Through multi-year agreements, SCPH has developed a sustainable financial model that will provide modest rate increases in comparison to the County's recent experience of significant inflation in employee health insurance programs.

The EPO model and formation of Stanislaus County Partners in Health requires a different organizational structure than has been previously utilized by the County. The model will feature three main organizations: Stanislaus County, Ascendant HealthCare (AHC) and Stanislaus County Partners in Health (SCPH). Ascendant HealthCare is a management/administrative services organization with extensive background in working with health plan sponsors to create custom health programs. Stanislaus County Partners in Health will be a new nonprofit, 501 (c) (4) mutual benefit corporation. Stanislaus County will contract with SCPH for access to the health provider network (physicians, hospitals and other related services), most beneficial rates and complete management services associated with the medical plan. AHC will contract with SCPH for the management of the provider network with a complete provision of management services including claim re-pricing, integrated care management, utilization management, clinical data management or other services as agreed to. AHC would also provide additional management services, including supervision of relationships with other third party administrators, pharmacy benefit manager, secondary "stop loss" insurance services and other appropriate agreements. A designated AHC

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representative would serve as the sole Member of the newly formed SCPH non-profit organization. Stanislaus County will enter into an agreement with AHC to memorialize that the County is a third party beneficiary of the management services agreement between AHC and SCPH. AHC would manage these contractual relationships and provide appropriate reports to the County on quality, performance and other reasonable considerations.

Self-Insured Funding Strategy

Consistent with the recommendations and conclusions developed throughout the health insurance program evaluation, County staff are recommending the County transition to a new self-insured medical funding strategy effective January 1, 2012. The new self-insured financing plan will require the County to pay for employee medical expenses on a fee-for-service basis, similar to the funding program the County has historically used for employee dental and vision benefit programs. The County will purchase secondary "stop-loss" insurance to protect the County from major claim expenses and provide greater stability in forecasting costs in the new funding program. The new self-insurance fund will be evaluated annually through an actuarial analysis to identify plan performance and develop recommendations for establishing changes in health insurance premiums. The initial self-insured financial program has been developed to establish adequate reserves in an effort to further protect the County from future volatility in health care costs. The County will contract with Ascendant HealthCare to provide a clinical data warehouse of County claims information across all three health plan platforms (Anthem Blue Cross, Kaiser, and Stanislaus County Partners in Health EPO). The County will maintain full ownership and succession rights to this data in the event of future termination of its relationship with Ascendant. This will ensure the County's future access and control of its health information at all times for decision making purposes.

Three self-insured plan options will be available for employees through Kaiser, Anthem Blue Cross and Stanislaus Partners in Health. Each plan will feature an EPO option with benefits consistent with the current HMO plans, and a High Deductible Health Plan (HDHP) option with a Health Savings Account. Implementation of the self-insurance plan will allow the County to standardize the benefit structure and co-pays for each medical plan option and simplify the process for employees to evaluate the true value of each plan option. Consistent with the self-insured financial strategy, employees selecting the Anthem Blue Cross and Kaiser medical plans will pay increased medical premiums to reflect the higher base cost of services in those medical plan options.

Vendor Relationships

Implementation of the new self-insured funding strategy and formation of SCPH will establish several new vendor relationships to support implementation of the new programs.

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Stanislaus County Partners in Health

Consistent with the formation and organizational structure of SCPH as described above, the County will contract with SCPH for access to the SCPH physician network and all related ancillary services. Services will be purchased through SCPH based on each of the following components to the new health plan:

Network Contracting & Management Services

- \$6.50 per employee per month

Claims Re-pricing Services

- \$1.50 per employee per month

Utilization Management Services

- \$4.50 per employee per month

Integrated Care Management

- \$2.50 per employee per month

Runout Repricing Fees (in the event the program terminates, these are the charges for repricing claims processed after termination of program)

- Ten Percent (10.0%) of Repricing Savings

National Network Fees

- Fifteen Percent (15.0%) of Savings

The overall administrative cost structure of the new SCPH plan is significantly lower than the administrative costs associated with traditional fully-insured medical plan options and the other self-insured plan options (Anthem and Kaiser) and will assist SCPH with maintaining maximum value in future medical premiums. Specific agreements with SCPH will be finalized after the Board of Supervisors has taken action to approve the formation and structure of the new SCPH health plan. Final agreements related to formation of SCPH and the contractual relationships with Ascendant HealthCare will be forwarded to the Board for approval in the coming weeks.

Ascendant HealthCare

Consistent with the establishment of a self-insured plan structure, the County will contract with Ascendant HealthCare to provide Clinical Data Management Services through a data warehouse consisting of claims data from all three proposed and/or future health benefit program vendors (Anthem Blue Cross, Kaiser, and Stanislaus County Partners in Health in 2012):

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Clinical Data Management Services
- \$2.50 per employee per month

Third Party Administrator (TPA)

The County has conducted an RFP process to evaluate potential vendors to serve as the TPA for the new SCPH medical plan option. Although the RFP process was distributed to eight qualified vendors and posted for broad circulation, the County only received one qualified response to the RFP. The County conducted a thorough analysis of the qualifications of the proposed vendor, Capitol Administrators, and concluded that Capitol Administrators offered a well qualified option for the new TPA services. Currently, Capitol Administrators provides TPA services for a wide range of public and private employers. Capitol Administrators also offered a multi-year pricing structure within the defined budget for TPA services and was, therefore, recommended for selection by the evaluation committee. This agenda item includes a recommendation to approve the new agreement with Capitol Administrators which is included with this agenda item as Attachment I.

Pharmacy Benefit Manager (PBM)

The County has conducted an RFP process to evaluate potential vendors to provide PBM services for the self-insured SCPH and Anthem Blue Cross plan options. County staff will complete the RFP evaluation process and forward the PBM agreement to the Board of Supervisors in the coming weeks. Kaiser Permanente will continue to provide PBM services to employees enrolled in the Kaiser system.

“Stop Loss” Insurance

County staff will work with SDA to secure bids from qualified insurance carriers to provide secondary insurance protection to the new self-insured medical plans. County staff will complete the evaluation process for stop loss insurance carriers and forward the proposed agreement to the Board of Supervisors in the coming weeks.

Next Steps

County staff are working closely with SDA staff and their partners to finalize all of the remaining agreements and associated activities necessary to prepare the implementation of the new SCPH medical plan as well as the corresponding implementation of the self-insurance funding strategy to be effective January 1, 2012. Network information and materials communicating the SCPH medical plan option have been shared with labor organizations on a continuous basis over the last several months and are currently available on the County's website at <http://www.stancounty.com/riskmgmt>. The new medical plan option will be officially communicated to all employees after approval of the Board of Supervisors and implementation of the County's planned open enrollment process starting October 31, 2011.

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This agenda item requests Board approval for the Chief Executive Officer to negotiate all agreements related to the implementation of the self-insured funding strategy. County staff are also requesting the Board authorize the Auditor-Controller to create the necessary budgets to implement the County's self-insured medical plan model. This additional authority is necessary to finalize all of the remaining components to the new SCPH medical plan and implementation of the self-insurance funding strategy prior to January 1, 2012.

POLICY ISSUE:

Board approval of the recommendations to develop and implement a new health care strategy for County employees supports the Board's priorities of A Healthy Community, Efficient Delivery of Public Services and Effective Partnerships.

STAFFING IMPACT:

Existing Chief Executive Office staff will implement the recommendations as outlined in this report.

CONTACT PERSON:

Jody Hayes, Deputy Executive Officer (525-5714)

ATTACHMENT I

AGREEMENT FOR PROFESSIONAL SERVICES

This Agreement for Professional Services is made and entered into by and between the County of Stanislaus ("County") and ("Consultant") for a period of three (3) years with an effective date of January 1, 2012 (the "Agreement"). Then County reserves the right to extend this contract on a year to year basis; however, in no case shall the renewal extend beyond two (2) years from the expiration date of the original Agreement. An extension of the term of this contact will be affected through an amendment to the contract.

Introduction

WHEREAS, the County has a need for services involving health benefit plan claim processing, eligibility and member services; and

WHEREAS, the Consultant is specially trained, experienced and competent to perform and has agreed to provide such services;

NOW, THEREFORE, in consideration of the mutual promises, covenants, terms and conditions hereinafter contained, the parties hereby agree as follows:

Terms and Conditions

1. Scope of Work

1.1 The Consultant shall furnish to the County upon execution of this Agreement or receipt of the County's written authorization to proceed, those services and work set forth in **Exhibit A**, which is attached hereto and, by this reference, made a part hereof.

1.2 All documents, drawings and written work product prepared or produced by the Consultant under this Agreement, including without limitation electronic data files, are the property of the Consultant; provided, however, the County shall have the right to reproduce, publish and use all such work, or any part thereof, in any manner and for any purposes whatsoever and to authorize others to do so. If any such work is copyrightable, the Consultant may copyright the same, except that, as to any work which is copyrighted by the Consultant, the County reserves a royalty-free, non-exclusive, and irrevocable license to reproduce, publish, and use such work, or any part thereof, and to authorize others to do so. The County shall defend, indemnify and hold harmless the Consultant and its officers, employees, agents, representatives, subcontractors and consultants from and against all claims, damages, losses, judgments, liabilities, expenses and other costs, arising out of or resulting from the County's reuse of the documents and drawings prepared by the Consultant under this Agreement.

1.3 Services and work provided by the Consultant under this Agreement will be performed in a timely manner in accordance with a schedule of work set forth in Exhibit A. If there is no schedule, the hours and times for completion of said services and work are to be set by the Consultant; provided, however, that such schedule is subject to review by and concurrence of the County.

1.4 The Consultant shall provide services and work under this Agreement consistent with the requirements and standards established by applicable federal, state and County laws, ordinances, regulations and resolutions. The Consultant represents and warrants that it will perform its work in

accordance with generally accepted industry standards and practices for the profession or professions that are used in performance of this Agreement and that are in effect at the time of performance of this

Agreement. Except for that representation and any representations made or contained in any proposal submitted by the Consultant and any reports or opinions prepared or issued as part of the work performed by the Consultant under this Agreement, Consultant makes no other warranties, either express or implied, as part of this Agreement.

1.5 If the Consultant deems it appropriate to employ a consultant, expert or investigator in connection with the performance of the services under this Agreement, the Consultant will so advise the County and seek the County's prior approval of such employment. Any consultant, expert or investigator employed by the Consultant will be the agent of the Consultant not the County.

2. Consideration

2.1 The Consultant shall be compensated on either a time and materials basis or a lump sum basis, as provided in Exhibit A attached hereto.

2.2 Except as expressly provided in this Agreement, Consultant shall not be entitled to nor receive from County any additional consideration, compensation, salary, wages or other type of remuneration for services rendered under this Agreement, including, but not limited to, meals, lodging, transportation, drawings, renderings or mockups. Specifically, Consultant shall not be entitled by virtue of this Agreement to consideration in the form of overtime, health insurance benefits, retirement benefits, disability retirement benefits, sick leave, vacation time, paid holidays or other paid leaves of absence of any type or kind whatsoever.

2.3 The Consultant shall provide the County with a monthly or a quarterly statement, as services warrant, of fees earned and costs incurred for services provided during the billing period, which the County shall pay in full within 30 days of the date each invoice is approved by the County. The statement will generally describe the services performed, the applicable rate or rates, the basis for the calculation of fees, and a reasonable itemization of costs. All invoices for services provided shall be forwarded in the same manner and to the same person and address that is provided for service of notices herein.

2.4 County will not withhold any Federal or State income taxes or Social Security tax from any payments made by County to Consultant under the terms and conditions of this Agreement. Payment of all taxes and other assessments on such sums is the sole responsibility of Consultant. County has no responsibility or liability for payment of Consultant's taxes or assessments.

3. Term

3.1 The term of this Agreement shall be from the date of this Agreement until completion of the agreed upon services unless sooner terminated as provided below or unless some other method or time of termination is listed in Exhibit A.

3.2 Should either party default in the performance of this Agreement or materially breach any of its provisions, the other party, at that party's option, may terminate this Agreement by giving written notification to the other party.

3.3 The County may terminate this agreement upon 30 days prior written notice.

Termination of this Agreement shall not affect the County's obligation to pay for all fees earned and reasonable costs necessarily incurred by the Consultant as provided in Paragraph 2 herein, subject to any applicable setoffs.

3.4 This Agreement shall terminate automatically on the occurrence of (a) bankruptcy or insolvency of either party, or (b) sale of Consultant's business.

4. Required Licenses, Certificates and Permits

Any licenses, certificates or permits required by the federal, state, county or municipal governments for Consultant to provide the services and work described in Exhibit A must be procured by Consultant and be valid at the time Consultant enters into this Agreement. Further, during the term of this Agreement, Consultant must maintain such licenses, certificates and permits in full force and effect. Licenses, certificates and permits may include but are not limited to driver's licenses, professional licenses or certificates and business licenses. Such licenses, certificates and permits will be procured and maintained in force by Consultant at no expense to the County.

5. Office Space, Supplies, Equipment, Etc.

Unless otherwise provided in this Agreement, Consultant shall provide such office space, supplies, equipment, vehicles, reference materials and telephone service as is necessary for Consultant to provide the services under this Agreement. The Consultant--not the County--has the sole responsibility for payment of the costs and expenses incurred by Consultant in providing and maintaining such items.

6. Insurance

6.1 Consultant shall take out, and maintain during the life of this Agreement, insurance policies with coverage at least as broad as identified in this contract. If Consultant normally carries insurance in an amount greater than the minimum specified below, that greater amount shall become the minimum required amount of insurance for purposes of this Contract. Therefore, Consultant hereby acknowledges and agrees that all insurances carried by it, shall be deemed liability coverage for all actions it performs in connection with this Contract.

6.1.1 General Liability. Commercial general liability insurance covering bodily injury, personal injury, property damage, products and completed operations with limits of no less than One Million Dollars (\$1,000,000) per incident or occurrence. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to any act or omission by Consultant under this Agreement or the general aggregate limit shall be twice the required occurrence limit.

6.1.2 Professional Liability Insurance. Professional errors and omissions (malpractice) liability insurance with limits of no less than One Million Dollars (\$1,000,000) aggregate. Such professional liability insurance shall be continued for a period of no less than one year following completion of the Consultant's work under this Agreement.

6.1.3 Automobile Liability Insurance. If the Consultant or the Consultant's officers, employees, agents or representatives utilize a motor vehicle in performing any

of the work or services under this Agreement, owned/non-owned automobile liability insurance providing combined single limits covering bodily injury and property damage liability with limits of no less than One Million Dollars (\$1,000,000) per incident or occurrence.

6.1.4 Workers' Compensation Insurance. Workers' Compensation insurance as required by the California Labor Code. In signing this contract, the Consultant certifies under section 1861 of the Labor Code that the Consultant is aware of the provisions of section 3700 of the Labor Code which requires every employer to be insured against liability for workmen's compensation or to undertake self-insurance in accordance with the provisions of that code, and that the Consultant will comply with such provisions before commencing the performance of the work of this Agreement.

If Consultant normally carries insurance in an amount greater than the minimum amount required by the County for this Contract, that greater amount shall become the minimum required amount of insurance for purposes of this Contract. Therefore, Consultant hereby acknowledges and agrees that all insurances carried by it, shall be deemed liability coverage for all actions it performs in connection with this Contract.

6.2 Any deductibles, self-insured retentions or named insureds must be declared in writing and approved by County. At the option of the County, either: (a) the insurer shall reduce or eliminate such deductibles, self-insured retentions or named insureds, or (b) the Consultant shall provide a bond, cash, letter of credit, guaranty or other security satisfactory to the County guaranteeing payment of the self-insured retention or deductible and payment of any and all costs, losses, related investigations, claim administration and defense expenses. The County, in its sole discretion, may waive the requirement to reduce or eliminate deductibles or self-insured retentions, in which case, the Consultant agrees that it will be responsible for and pay any self-insured retention or deductible and will pay any and all costs, losses, related investigations, claim administration and defense expenses related to or arising out of the Consultant's defense and indemnification obligations as set forth in this Agreement.

6.3 The Consultant shall obtain a specific endorsement to all required insurance policies, except Workers' Compensation insurance and Professional Liability insurance, naming the County and its officers, officials and employees as additional insureds regarding: (a) liability arising from or in connection with the performance or omission to perform any term or condition of this Agreement by or on behalf of the Consultant, including the insured's general supervision of its subcontractors; (b) services, products and completed operations of the Consultant; (c) premises owned, occupied or used by the Consultant; and (d) automobiles owned, leased, hired or borrowed by the Consultant. For Workers' Compensation insurance, the insurance carrier shall agree to waive all rights of subrogation against the County its officers, officials and employees for losses arising from the performance of or the omission to perform any term or condition of this Agreement by the Consultant.

6.4 The Consultant's insurance coverage shall be primary insurance regarding the County and County's officers, officials and employees. Any insurance or self-insurance maintained by the County or County's officers, officials and employees shall be excess of the Consultant's insurance and shall not contribute with Consultant's insurance.

6.5 Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the County or its officers, officials and employees.

6.6 The Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.

6.7 Each insurance policy required by this section shall be endorsed to state that coverage shall not be suspended, voided, canceled by either party except after thirty (30) days' prior written notice has been given to County. The Consultant shall promptly notify, or cause the insurance carrier to promptly notify, the County of any change in the insurance policy or policies required under this Agreement, including, without limitation, any reduction in coverage or in limits of the required policy or policies.

6.8 Insurance shall be placed with California admitted insurers (licensed to do business in California) with a current rating by Best's Key Rating Guide of no less than A-:VII; provided, however, that if no California admitted insurance company provides the required insurance, it is acceptable to provide the required insurance through a United States domiciled carrier that meets the required Best's rating and that is listed on the current List of Eligible Surplus Line Insurers maintained by the California Department of Insurance.

6.9 Consultant shall require that all of its subcontractors are subject to the insurance and indemnity requirements stated herein, or shall include all subcontractors as additional insureds under its insurance policies.

6.10 At least ten (10) days prior to the date the Contractor begins performance of its obligations under this Agreement, Contractor shall furnish County with certificates of insurance, and with original endorsements, showing coverage required by this Agreement, including, without limitation, those that verify coverage for subcontractors of the Contractor. The certificates and endorsements for each insurance policy are to be signed by a person authorized by that insurer to bind coverage on its behalf. All certificates and endorsements shall be received and, in County's sole and absolute discretion, approved by County. County reserves the right to require complete copies of all required insurance policies and endorsements, at any time.

6.11 The limits of insurance described herein shall not limit the liability of the Consultant and Consultant's officers, employees, agents, representatives or subcontractors.

7. Defense and Indemnification

7.1 To the fullest extent permitted by law, Consultant shall indemnify, hold harmless and defend the County and its agents, officers and employees from and against all claims, damages, losses, judgments, liabilities, expenses and other costs, including litigation costs and attorneys' fees, arising out of, resulting from, or in connection with the performance of this Agreement by the Consultant or Consultant's officers, employees, agents, representatives or subcontractors and resulting in or attributable to personal injury, death, or damage or destruction to tangible or intangible property, including the loss of use. Notwithstanding the foregoing, Consultant's obligation to indemnify the County and its agents, officers and employees for any judgment, decree or arbitration award shall extend only to the percentage of negligence or responsibility of the Consultant in contributing to such claim, damage, loss and expense.

7.2 Consultant's obligation to defend, indemnify and hold the County and its agents, officers and employees harmless under the provisions of this paragraph is not limited to or restricted by any requirement in this Agreement for Consultant to procure and maintain a policy of insurance.

7.3 To the fullest extent permitted by law, the County shall indemnify, hold harmless and

defend the Consultant and its officers, employees, agents, representatives or subcontractors from and against all claims, damages, losses, judgments, liabilities, expenses and other costs, including litigation costs and attorney's fees, arising out of or resulting from the negligence or wrongful acts of County and its officers or employees.

7.4 Subject to the limitations in 42 United States Code section 9607 (e), and unless otherwise provided in a Scope of Services approved by the parties:

(a) Consultant shall not be responsible for liability caused by the presence or release of hazardous substances or contaminants at the site, unless the release results from the negligence of Consultant or its subcontractors;

(b) No provision of this Agreement shall be interpreted to permit or obligate Consultant to assume the status of "generator," "owner," "operator," "arranger," or "transporter" under state or federal law; and

(c) At no time, shall title to hazardous substances, solid wastes, petroleum contaminated soils or other regulated substances pass to Consultant.

8. Status of Consultant

8.1 All acts of Consultant and its officers, employees, agents, representatives, subcontractors and all others acting on behalf of Consultant relating to the performance of this Agreement, shall be performed as independent contractors and not as agents, officers or employees of County. Consultant, by virtue of this Agreement, has no authority to bind or incur any obligation on behalf of County. Except as expressly provided in Exhibit A, Consultant has no authority or responsibility to exercise any rights or power vested in the County. No agent, officer or employee of the County is to be considered an employee of Consultant. It is understood by both Consultant and County that this Agreement shall not be construed or considered under any circumstances to create an employer-employee relationship or a joint venture.

8.2 At all times during the term of this Agreement, the Consultant and its officers, employees, agents, representatives or subcontractors are, and shall represent and conduct themselves as, independent contractors and not employees of County.

8.3 Consultant shall determine the method, details and means of performing the work and services to be provided by Consultant under this Agreement. Consultant shall be responsible to County only for the requirements and results specified in this Agreement and, except as expressly provided in this Agreement, shall not be subjected to County's control with respect to the physical action or activities of Consultant in fulfillment of this Agreement. Consultant has control over the manner and means of performing the services under this Agreement. If necessary, Consultant has the responsibility for employing other persons or firms to assist Consultant in fulfilling the terms and obligations under this Agreement.

8.4 Consultant is permitted to provide services to others during the same period service is provided to County under this Agreement; provided, however, such services do not conflict directly or indirectly with the performance of the Consultant's obligations under this Agreement.

8.5 If in the performance of this Agreement any third persons are employed by Consultant, such persons shall be entirely and exclusively under the direction, supervision and control of

Consultant. All terms of employment including hours, wages, working conditions, discipline, hiring and discharging or any other term of employment or requirements of law shall be determined by the Consultant.

8.6 It is understood and agreed that as an independent contractor and not an employee of County, the Consultant and the Consultant's officers, employees, agents, representatives or subcontractors do not have any entitlement as a County employee, and, except as expressly provided for in any Scope of Services made a part hereof, do not have the right to act on behalf of the County in any capacity whatsoever as an agent, or to bind the County to any obligation whatsoever.

8.7 It is further understood and agreed that Consultant must issue W-2 forms or other forms as required by law for income and employment tax purposes for all of Consultant's assigned personnel under the terms and conditions of this Agreement.

8.8 As an independent contractor, Consultant hereby indemnifies and holds County harmless from any and all claims that may be made against County based upon any contention by any third party that an employer-employee relationship exists by reason of this Agreement.

9. Records and Audit

9.1 Consultant shall prepare and maintain all writings, documents and records prepared or compiled in connection with the performance of this Agreement for a minimum of four (4) years from the termination or completion of this Agreement. This includes any handwriting, typewriting, printing, photostatic, photographing and every other means of recording upon any tangible thing, any form of communication or representation including letters, words, pictures, sounds or symbols or any combination thereof.

9.2 Any authorized representative of County shall have access to any writings as defined above for the purposes of making audit, evaluation, examination, excerpts and transcripts during the period such records are to be maintained by Consultant. Further, County has the right at all reasonable times to audit, inspect or otherwise evaluate the work performed or being performed under this Agreement.

9.3 Consultant shall reconcile bank statement monthly and immediately provide a copy of the reconciliation to the County.

9.4 Consultant will establish internal auditing procedures and provide the County of a copy of those procedures.

10. Confidentiality

The Consultant agrees to keep confidential all information obtained or learned during the course of furnishing services under this Agreement and to not disclose or reveal such information for any purpose not directly connected with the matter for which services are provided.

11. Nondiscrimination

During the performance of this Agreement, Consultant and its officers, employees, agents, representatives or subcontractors shall not unlawfully discriminate in violation of any federal, state or local law, rule or regulation against any employee, applicant for employment or person receiving services under this Agreement because of race, religion, color, national origin, ancestry, physical or mental disability, medical condition (including genetic characteristics), marital status, age, political affiliation, sex or sexual orientation. Consultant and its officers, employees, agents, representatives or subcontractors shall comply with all applicable Federal, State and local laws and regulations related to non-discrimination and equal opportunity, including without limitation the County's nondiscrimination policy; the Fair Employment and Housing Act (Government Code sections 12900 et seq.); California Labor Code sections 1101, 1102 and 1102.1; the Federal Civil Rights Act of 1964 (P.L. 88-352), as amended; and all applicable regulations promulgated in the California Code of Regulations or the Code of Federal Regulations.

12. Assignment

This is an agreement for the services of Consultant. County has relied upon the skills, knowledge, experience and training of Consultant and the Consultant's firm, associates and employees as an inducement to enter into this Agreement. Consultant shall not assign or subcontract this Agreement without the express written consent of County. Further, Consultant shall not assign any monies due or to become due under this Agreement without the prior written consent of County.

13. Waiver of Default

Waiver of any default by either party to this Agreement shall not be deemed to be waiver of any subsequent default. Waiver or breach of any provision of this Agreement shall not be deemed to be a waiver of any other or subsequent breach, and shall not be construed to be a modification of the terms of this Agreement unless this Agreement is modified as provided below.

14. Notice

Any notice, communication, amendment, addition or deletion to this Agreement, including change of address of either party during the term of this Agreement, which Consultant or County shall be required or may desire to make shall be in writing and may be personally served or, alternatively, sent by prepaid first class mail to the respective parties as follows:

To County: Stanislaus County Purchasing Agent
1010 10th Street, Suite 5400
Modesto, CA 05354

With copy to: Stanislaus County Chief Executive Office
Risk Management Division
1010 10th Street, Suite 5900
Modesto, CA 05354

To Consultant: Capitol Administrators, Inc.
Attn: President/CEO
2920 Prospect Park Drive, Ste.210
Rancho Cordova , CA 95670

15. Conflicts

Consultant agrees that it has no interest and shall not acquire any interest direct or indirect which would conflict in any manner or degree with the performance of the work and services under this Agreement.

16. Severability

If any portion of this Agreement or application thereof to any person or circumstance shall be declared invalid by a court of competent jurisdiction or if it is found in contravention of any federal, state or county statute, ordinance or regulation the remaining provisions of this Agreement or the application thereof shall not be invalidated thereby and shall remain in full force and effect to the extent that the provisions of this Agreement are severable.

17. Amendment

This Agreement may be modified, amended, changed, added to or subtracted from by the mutual consent of the parties hereto if such amendment or change is in written form and executed with the same formalities as this Agreement and attached to the original Agreement to maintain continuity.

18. Entire Agreement

This Agreement supersedes any and all other agreements, either oral or in writing, between any of the parties herein with respect to the subject matter hereof and contains all the agreements between the parties with respect to such matter. Each party acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding.

19. Advice of Attorney

Each party warrants and represents that in executing this Agreement, it has received independent legal advice from its attorneys or the opportunity to seek such advice.

20. Construction

Headings or captions to the provisions of this Agreement are solely for the convenience of the parties, are not part of this Agreement, and shall not be used to interpret or determine the validity of this Agreement. Any ambiguity in this Agreement shall not be construed against the drafter, but rather the terms and provisions hereof shall be given a reasonable interpretation as if both parties had in fact drafted this Agreement.

21. Governing Law and Venue

This Agreement shall be deemed to be made under, and shall be governed by and construed in accordance with, the laws of the State of California. Any action brought to enforce the terms or provisions of this Agreement shall have venue in the County of Stanislaus, State of California.

[SIGNATURES SET FORTH ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties or their duly authorized representatives have executed this Agreement on the day and year first hereinabove written.

COUNTY OF STANISLAUS

CAPITOL ADMINISTRATORS, INC.

By: _____
Keith D. Boggs, Deputy Executive Officer,
GSA Director/Purchasing Agent

By: _____
David Yee, CFO

"Consultant"

APPROVED: BOS Resolution # _____

"County"

APPROVED AS TO CONTENT:
Chief Executive Office
Risk Management Division

By: _____
Jody Hayes, Deputy Executive Officer

APPROVED AS TO FORM:

By: _____
Thomas Boze, Deputy County Counsel

V:\DATA\PUBLIC\Counsel\CONTRACT\PROF-SERV Agmt.wpd

EXHIBIT A

A. SCOPE OF WORK

The Consultant shall provide services under this Agreement as follows:

1. Generally, Consultant shall be responsible for providing the following services for the plan members enrolled in the Stanislaus County Partners in Health medical plan:

- Eligibility & Enrollment Management
- ID Card Issuance
- Monthly Billing Process
- Claim Adjudication & Payment
- Third Party Claim Authorizations
- Self-Serve Website Maintenance
- Claims Appeal Management
- Coordination of Benefits
- Open Enrollment Services
- Subrogation Services
- Claim & Eligibility File Extracts
- Customer, Provider, Member Service
- HIPAA Compliance
- Monthly Service Performance Report
- Stop Loss Claim Filing & Support
- Other related services as required
- Medicare reporting

All services provided by Consultant and the manner in which services are to be provided are more particularly set forth in the County's Request for Proposal #11-37 MSP; the Consultant's responding proposal (the "RFP Response"); Notice to Proposers; Information for Proposers; General Conditions, as well as any plans, specifications, addenda, and any documents particularly required or provided (as may be applicable), all of which are incorporated herein by reference and made a part hereof (collectively, the "RFP"). All of the foregoing documents, as may be applicable, together with this Agreement, comprise the contract and all services provided hereunder shall be performed in accordance therewith. In the event there is a conflict between the terms and conditions set forth in this Agreement, those set forth in the RFP, and those set forth in Exhibit A, then in such case, the terms and conditions shall control in this order: 1st, Exhibit A, 2nd, this Agreement, and 3rd the RFP.

2. Enrollment, Eligibility, and Identification Cards: Consultant shall be required to:
 - a. accept and maintain current records of enrollment;
 - b. produce and mail member identification (ID) cards to each employee's address of record; and
 - c. adjudicate claims according to member eligibility status.

Enrollment will be available by monthly file submission and online process accessible to the County. Replacement ID cards will be available via employee self-service online.

3. Administrative Materials/Forms: Consultant shall be responsible for designing, printing and distributing administrative materials and forms as necessary, subject to the County's written approval as to form and content. Administrative materials and/or forms must be mailed to plan participants upon individual request. Such material and forms shall be available on the section of Consultant's website (more fully described in paragraph 11 below) dedicated to the County and be available for download at any time.
4. Staffing: Consultant shall maintain sufficient staff to meet the needs of the County and the plan participants including but not limited to, one (1) account manager and a sufficient number of claim processors, member and other administrative staff, whose responsibility is to assist the

Team #28490

and County's staff and the County's participants with questions regarding the plan.

5. Quality Assurance: Consultant shall be responsible for internal quality control processes to regularly evaluate the performance and accuracy of the claims processing systems and the claims processing staff. Findings of internal quality control evaluations will be provided to the County no less than annually.

The County reserves audit rights, at such times and at such intervals as it determines to be prudent, of claims payment and service processes, accuracy, and such other terms and conditions as it deems appropriate to its needs.

6. Claim Adjudication: Consultant shall be responsible for adjudication and payment of claims in conformance with agreed upon standards of performance, including timeliness and accuracy.
7. Monthly Billing Services: Consultant shall be responsible for providing timely monthly billings to the County by plan and member classification (active, retired, COBRA).
8. Appeal Resolution: Consultant shall be responsible for adhering to the County's claim appeal process as set forth in the County's Summary Plan Description (SPD) and the provisions of the Accountable Care Act (ACA), including any amendments or modifications thereto, as well as any/all other state, local or federal rules or legislation to which the County may, in the future, be required to comply.
9. Prior Authorization. Consultant shall be required to accept and adjudicate all claims pursuant to authorizations provided by third party providers in either electronic report form and/or in the form of electronic claim attachments, monthly eligibility and claims file submission.

Consultant shall be responsible for provision of a monthly eligibility and claims file to the County or its designee in a form and manner acceptable to the County, no less than ten (10) working days following the end of any given month.

10. Consultant (TPA) Performance Reporting: Consultant shall submit monthly reports to the County, or its designee, in a form and manner acceptable to the County, containing the following metrics:
 - a. \$ Claim Transaction Volume (paid, pending, denied/rejected);
 - b. # Claim Transaction Volume (paid, pending, denied/rejected);
 - c. Monthly Claims Turn Around Time (TAT);
 - d. Total End of Month Enrollment by Plan and Classification;
 - e. End of Month Claim Inventory (# of Claims);
 - f. Pending Claim Aging by Reason Code;
 - g. Customer Service Monthly Call Volume;
 - h. Customer Service Monthly Call Abandonment Rate;
 - i. Customer Service Monthly Average Time to Answer; and
 - j. Customer Service Monthly Call Resolution Rate.
11. Website. Consultant shall develop and maintain a secure, searchable public website that contains at a minimum:
 - a. A current provider directory (provided by network vendor);
 - b. Downloadable claim forms for direct member claim submissions;
 - c. Benefit summaries for each County Plan administered by Consultant;
 - d. Self-service individual member claim Status/history;

- e. Health/wellness information; and
- f. Accessibility from a link from County's website.

The website must be accessible to plan participants and providers with no access restriction or registration requirement except for those functions which either (a) allow for review of a plan participant's claim history or (b) include other forms of personal health information.

12. Explanation of Benefits. Consultant shall provide an Explanation of Benefits ("EOB") to each Plan Participant utilizing the medical plan in a form submitted to and approved by the County. At a minimum, each EOB shall include:
 - a. Name and address of Consultant;
 - b. Toll-free phone number of Consultant;
 - c. Plan Participant's name and address;
 - d. Participant's identification number;
 - e. Patient's name;
 - f. Provider's name;
 - g. Claim date of service;
 - h. Type of service;
 - i. Total charges;
 - j. Discount amount;
 - k. Allowed amount;
 - l. Excluded charges;
 - m. Amount applied to deductible;
 - n. Co-payment/coinsurance amount;
 - o. Total patient responsibility; and
 - p. Total payment made and to whom.

13. Performance Guarantees: Consultant is responsible for adherence to the following performance standards: See Exhibit B

B. COMPENSATION

The Consultant shall be compensated for the services provided under this Agreement as follows:

1. Consultant will be paid an administrative fee based on the number of employees covered under the Stanislaus County Partners in Health medical plan as follows:

Primary Services	Fee
Medical Administration First Year: HIPAA, DOL Included PPO Maintenance, Included ID Cards Web Services and Access, Included Monthly & Annual Reporting, Included	\$17.00 PEPM
Medical Administration Second Year	\$17.00 PEPM
Medical Administration Third Year	\$18.00 PEPM
Medical Plan Document (SPD's) per SPD	\$1,000.00
Plan set up (any or all products)	\$3,000.00

Directions on line	Included
Internet Services (Includes ability to review SPDs, plan design summaries, EOBs, claims history, eligibility history on-line 24-7; links to Group's corporate website, PPO(s) and PBM websites can also be included; members also have the ability to ask questions or order replacement ID cards on line 24-7.	Included
Subrogation/3 rd Party recoveries	30% of Savings
Out of Area Cost Savings	25% of Savings
Check Stock Fee	@Vendor Cost

2. Consultant acknowledges that the only compensation authorized to be paid for the services described in this agreement shall be the administrative fees set forth in paragraph 1 above. Commissions, overrides, service fees, shared savings, or any other form of compensation from any third party entity or vendor is not permitted and shall constitute full and sufficient grounds for termination of this Agreement.

4. The parties hereto acknowledge the maximum amount to be paid by the County for services provided in each year of the agreement shall not exceed \$750,000.00, including, without limitation, the cost of any subcontractors, consultants, experts or investigators retained by the Consultant to perform or to assist in the performance of its work under this Agreement.

C. TERM

Paragraph 3.1 of this Agreement is amended to read as follows:

3.1 The term of this Agreement shall be from January 1, 2012 through December 31, 2014 unless sooner terminated as provided below or unless some other method or time of termination is listed in Exhibit A. The County reserves the right to extend this Agreement for two (2) additional one-year terms; however, in no case shall any renewal extend beyond December 31, 2016.

D. REPRESENTATIVES

The parties' respective Project Managers shall be:

For County:

Jody Hayes, Deputy Executive Officer
Stanislaus County Chief Executive Office
Risk Management Division
1010 10th Street, Suite 5900
Modesto, CA 95356
(209) 525-5714
HayesJ@stancounty.com

For Contractor:

Renee Stout, Director of Account Management
Capitol Administrators, Inc.
2920 Prospect Drive, Suite 210
Rancho Cordova, CA 95670
(916) 669-2468
rstout@capitoladm.com

E. OTHER GOVERNMENT/PUBLICLY FUNDED AGENCIES

If mutually agreeable to all parties, the terms and conditions of this Agreement may be extended to other government or publicly funded agencies.

EXHIBIT B

PERFORMANCE GUARANTEES

IMPLEMENTATION PERFORMANCE GUARANTEES

Eligibility – Eligibility will be loaded within 2 business days of receipt of a clean transactional file if received electronically and within 5 business days of receipt if received manually.

ID Card Production – ID Cards will be produced within 10 business days of the Eligibility Load finalization and mailed within 2 business days thereafter.

Summary Plan Document (SPD) Preparation – The initial draft of the SPD will be completed and submitted to the client for review within 30 business days of receipt of all information necessary to complete said SPD. Final draft will be completed and submitted to the client within 10 business days of receipt of all final revisions and clarifications from client.

Penalty – Failure to meet any of the above Implementation Performance Guarantees will result in a penalty of 10% of the stated Implementation Fee.

CLAIM PROCESSING PERFORMANCE GUARANTEES

Financial Dollar Accuracy - Capitol will achieve a quarterly 98.5% level of financial accuracy on claims paid. This will be determined by the total amount of claim dollars paid incorrectly divided by the total dollar amount of claims processed and will be expressed as a percentage. This ratio may be determined using a statistically-valid stratified random sample. Accuracy percentage is determined by subtracting the error ratio from 100%.

If Client determines, based on appropriate report or audit, that Capitol did not achieve said financial accuracy, Client shall be entitled to a penalty of a percentage of the monthly administrative fee for the audit period in which the errors occurred. The schedule shall be as follows:

<u>Financial Errors Ratio</u>	<u>Penalty of Admin Fee</u>
1.5% or less	0%
Greater than 1.5% and Less Than 2.5%	1%
Greater than 2.5% and Less Than 3%	2%
Greater than 3% and Less Than 3.5%	3%
Over 3.5%	4%

Claims Payment Accuracy – Capitol will achieve a quarterly 97.5% level of claims payment accuracy. This will be determined by the total number of claims processed containing payment errors divided by the total number of claims processed. Again, this ratio may be determined with the use of a statistically-valid stratified random sample.

If Client determines, based on appropriate report or audit, that Capitol did not achieve the payment accuracy performance objectives, Client shall be entitled to a penalty of a percentage of the monthly administration fees for the audit period in which the errors occurred. The schedule shall be as follows:

<u>Payment Accuracy Error Ratio</u>	<u>Penalty of Admin Fee</u>
2.5% or Less	0%

Greater than 2.5% and Less Than 4.5%	1%
Greater than 4.5% and Less Than 5%	2%
Greater than 5% and Less Than 5.5%	3%
Over 5.5%	4%

Timeliness of Claims Processing – Capitol will process 85% of all clean claims within ten (10) business days of receipt (processing involves either paying, denying or requesting additional data from the Participant or Provider). During any period of Force Majeure, timing requirements shall be waived. Timeliness may be determined with the use of stratified random samples.

If Client, based on appropriate reports, determines 85% of all clean claims have not been processed within ten (10) business days after receipt of such claims, Client shall be entitled to a penalty payment. Such penalty payment shall be based upon a percentage of the administration fees for the audit period in which the errors occurred. This schedule shall be as follows:

<u>Timeliness of Processing (Business Days)</u>	<u>Penalty of Admin Fee</u>
10 Days	0%
Over 10 Days But Less Than 15 Days	3%
Over 15 Days But Less Than 20 Days	5%
Over 20 Days	10%

CUSTOMER SERVICE PERFORMANCE GUARANTEES

Call Waiting Time – The percentage of calls answered within 30 seconds will be calculated by dividing the total number of calls answered within 30 seconds by the total number of calls received. Time spent on hold is included in wait time.

<u>Guarantee</u>	<u>Penalty of Admin Fee</u>
Average speed to answer within 30 seconds	0%
Average speed to answer within 45 seconds	1%
Average speed to answer greater than 45 seconds	2%

Abandoned Calls – The percentage of abandoned calls will be calculated by dividing the number of calls abandoned by the total number of calls placed in the queue. An abandoned call will be any call placed in the queue in which the caller hangs up before the call is answered by a customer service representative.

<u>Guarantee</u>	<u>Penalty of Admin Fee</u>
5% or less abandoned	0%
Over 5% but less than 7% abandoned	1%
More than 7% abandoned	2%

All of the above Performance Guarantees are subject to an overall aggregate maximum of 5% of the annual administrative fee. All Performance Guarantees are based upon averaged quarterly results. Payments are due the month following the end of the quarter in which the penalty occurred and must be in the form of reduction of billed administrative fees.

PowerPoint Presentation - *B-7



Employee Health Insurance

*Program Evaluation and
Recommendations*

October 18, 2011

Employee Health Insurance

- County currently spends approx. \$40.5 m annually on employee medical insurance
 - General Fund pays approx. 30% of the total costs
- 3,440 benefit eligible employees
 - Employees pay approx. \$4.8 m in premium cost share
- Approx. 500 additional participants through special district employees and early retirees
 - County does not pay any of the premium for early retirees or special district employees

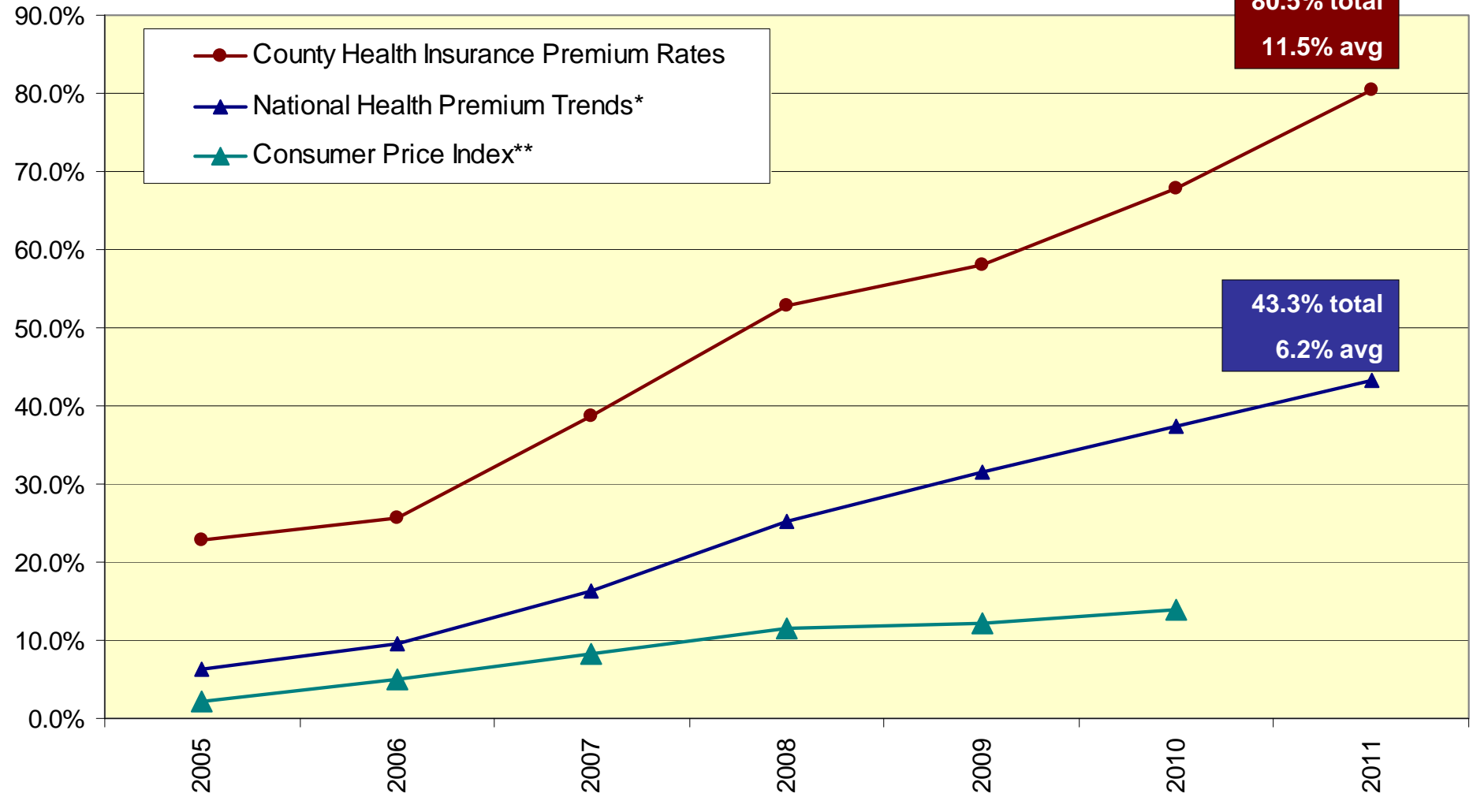
Employee Health Insurance

- County participated in large purchasing consortium (Pacific Business Group on Health) to purchase fully-insured medical benefits from 1999 to 2009
- County utilized health insurance consultants to negotiate fully-insured medical benefits in 2010 & 2011

Employee Health Insurance

- Medical insurance premiums continued to grow, averaging 11.5% per year from 2005 to 2011; Kaiser and Anthem provided quotes for a projected 12% increase in 2012 under the current fully-insured plans
- County has worked with employees to negotiate changes in the benefit programs to reduce cost impact to the County

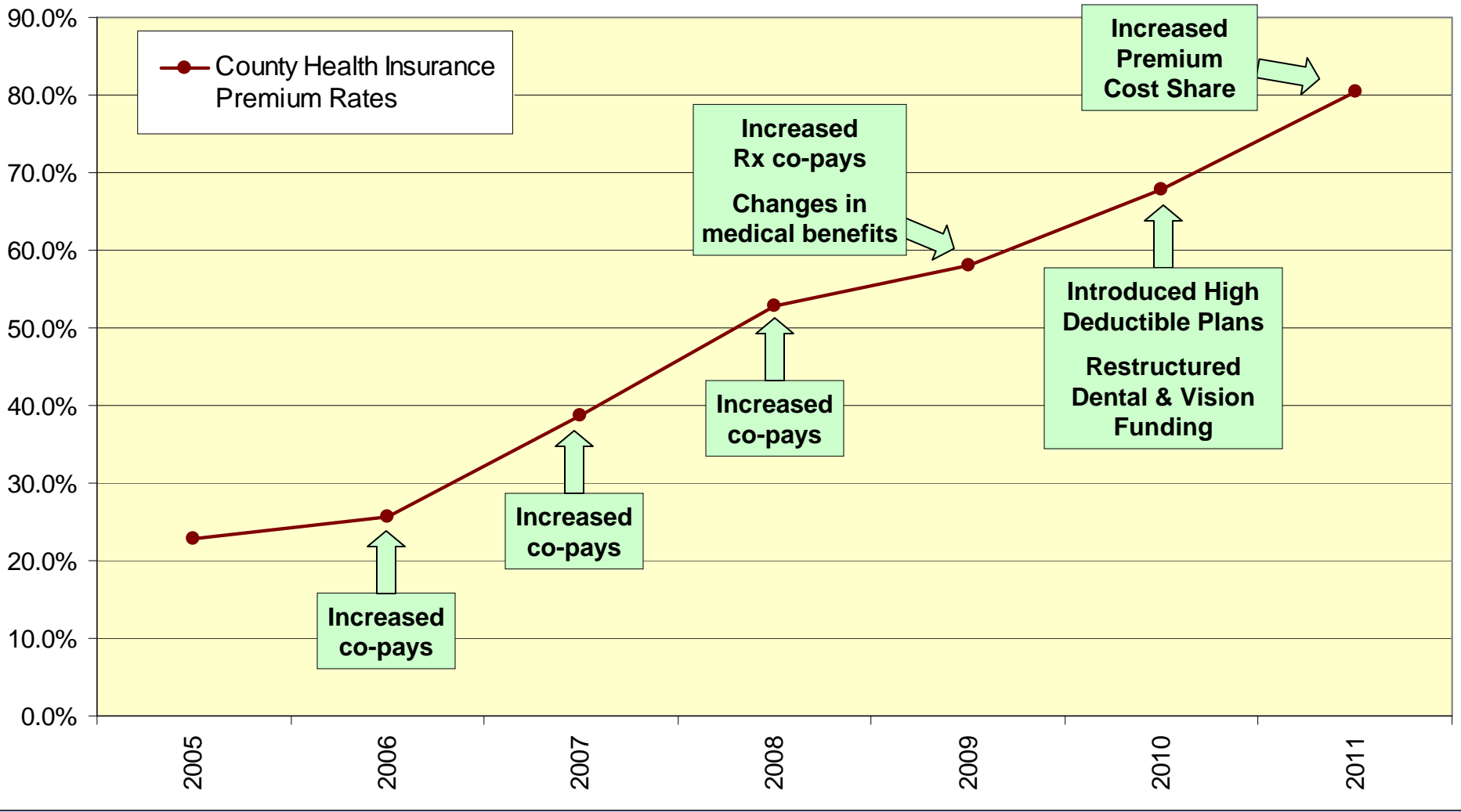
Cumulative Annual Health Insurance Inflation 2005 to 2011



**Source: The Kaiser Family Foundation and Health Research and Educational Trust - Employer Health Benefits, 2011 Annual Survey*

***Source: Consumer Price Index, San Francisco Bay Area Region, Urban and Clerical Wage Earners*

Cumulative Annual Health Insurance Inflation 2005 to 2011



Health Insurance Program Evaluation

- Initiated consulting services with Sidles Duncan and Associates
 - Phase I – Current Program Assessment
 - Phase II – Strategic Analysis and Recommendations
 - Phase III – Program Development and Implementation

Sidles Duncan and Associates

Phase I objectives

- Comprehensive evaluation of local healthcare delivery systems, current health plan performance and employee health status
- Three primary hospital systems
 - Sutter (Memorial)
 - Tenet (Doctors Medical Center - DMC)
 - Kaiser (Kaiser Modesto)

Phase I – Healthcare Quality

- Evaluated quality care data for all three health systems
 - Based on information provided by the California Office of Statewide Health Planning and Development (OSHPD), DMC and Memorial provide comparable access to services and quality of services
 - Data pertaining to patient quality of care delivered in the Modesto Kaiser hospital is limited
- While we have aggregate data that applies to all patients of a specific facility, we have no data specific to the County employee population

Phase I – Current Plan Performance

- Key to evaluating health plan performance is understanding the risk profile of the population with the County's two health plans
- Healthcare needs and costs can be dramatically different with different populations, based on demographics and health status

Phase I – Current Plan Performance & Health Status

Stanislaus County Kaiser v. Anthem

Demographics and Health Status of Covered Populations

	Anthem	Kaiser
Average Age	41.9	31.4
Heart Disease	27.6%	1.1%
One Chronic Condition	26.5%	14.0%
Two or More Chronic Conditions	14.3%	1.9%

Source: Kaiser and Anthem Management Reports and Data Submission

Phase I – Employee Health Status

- We do know:
 - 8% of plan members are incurring 81% of the plan's medical costs; not uncommon with similar populations
- We do not know:
 - Whether or not the people with chronic or acute conditions are obtaining the right care

Phase II – Developing a Strategic Plan

- Financial goals
 - Transparency and cost reduction
 - Need to identify value
- Clinical goals
 - Transparency and performance measurement
- Develop an alternative to current programs
 - Align with plan objectives
 - Provider network aligned with County needs
 - Initiate competition in the local market
- Evaluate alternative funding strategies

Phase II Recommendations

- The County should self-fund all health plans:
 - Provide for a common plan design
 - Reduce the administrative and risk charges associated with fully insured plans
 - Establish greater transparency to better understand and be able to evaluate the value proposition each plan brings to the County in both financial and clinical metrics
- Sustainable long-term cost and quality model

Phase II Recommendations

- The County should combine its health benefit plan offerings into a single Risk Pool:
 - Reduce insurance charges for large claims through the purchase of stop loss insurance
 - Improve marketability of stop loss program
 - Establish greater predictability and reduce cost through creation of larger single Risk Pool

Phase II Recommendations

- The County should own and maintain independent control over financial and utilization data across all plans
 - Maintain independent control over underwriting and rate determination annually
 - Independently evaluate plans offered based upon their financial and clinical performance in meeting the needs of their covered populations, not on the “premium rates” assigned to the populations they cover
 - Maintain control over ability to change plans and strategies over time with benefit of comprehensive utilization and financial data

Phase II Recommendations

Selection of Plans

- The County should add EPO plan options with common County benefit plan designs to optimize competition among health systems in Stanislaus County, to reduce healthcare plan costs currently, and to better control health care trend costs
- The County should offer Anthem and Kaiser plan options with common County benefit plan designs (current plan designs vary between Kaiser and Anthem)

Health Insurance Program Review

- County staff evaluated the results of Phase I and Phase II and directed Sidles Duncan to proceed with two specific strategies for implementation starting January 2012
 - Develop an Exclusive Provider Organization (EPO) plan option focused on access to high quality care with greater long-term financial stability
 - Prepare a self-insurance model to combine risk pools and long-term financial management for each of the County's medical plans

Phase III - Development of EPO Option

- Evaluation of local delivery models
 - SDA and County Representatives
 - Focused on long-term partnerships delivering quality care and integrated clinical management (primary care, specialist, hospitals)
- Tenet showed strong interest in becoming a long term partner with the County

Phase III - Development of EPO Option

- Current Health Plan Strengths and Weaknesses
 - Kaiser provides robust clinical integration supported with strong data infrastructure
 - Anthem provides a competitive unit cost-of-care and expansive local network
 - Both plans have high administrative cost

Phase III - Development of EPO Option

- Stanislaus County Partners in Health strategy seeks to engage local providers in the development of a program to integrate
 - Robust clinical management
 - Reduced unit costs of care
 - Reduced administrative costs in a sustainable long term cost model
 - Strong local and national network providing quality health care choices

Development of EPO Option

- Formed the structure of a new non-profit organization, Stanislaus County Partners in Health
- Formed a long-term agreement with Tenet Health Systems as the foundation of the new alternative medical plan
- Actively engaged with medical groups throughout the community to develop primary and specialty physician network

Phase III – Development of EPO Provider Network

	Kaiser	Anthem	SCPH
Key Modesto Hospital(s)	Kaiser	Memorial and Doctors Modesto	Doctors Modesto
Other Stanislaus County & Regional Hospitals	Stanislaus Surgical Emanuel Turlock Kaiser Manteca	Doctors Manteca, Emanuel Turlock Oak Valley Oakdale Stanislaus Surgical	Doctors Manteca Emanuel Turlock Oak Valley Oakdale
Modesto Regional Physician Panel	127	296 (Current HMO)	290 (as of 10-18-11)
California Regional Referral Hospitals	Sacramento (2) San Francisco (1)	Sacramento (1) San Francisco (9)	Sacramento (3) San Francisco (10)
National Network	Kaiser	Anthem BCBS	PHCS Multi-Plan

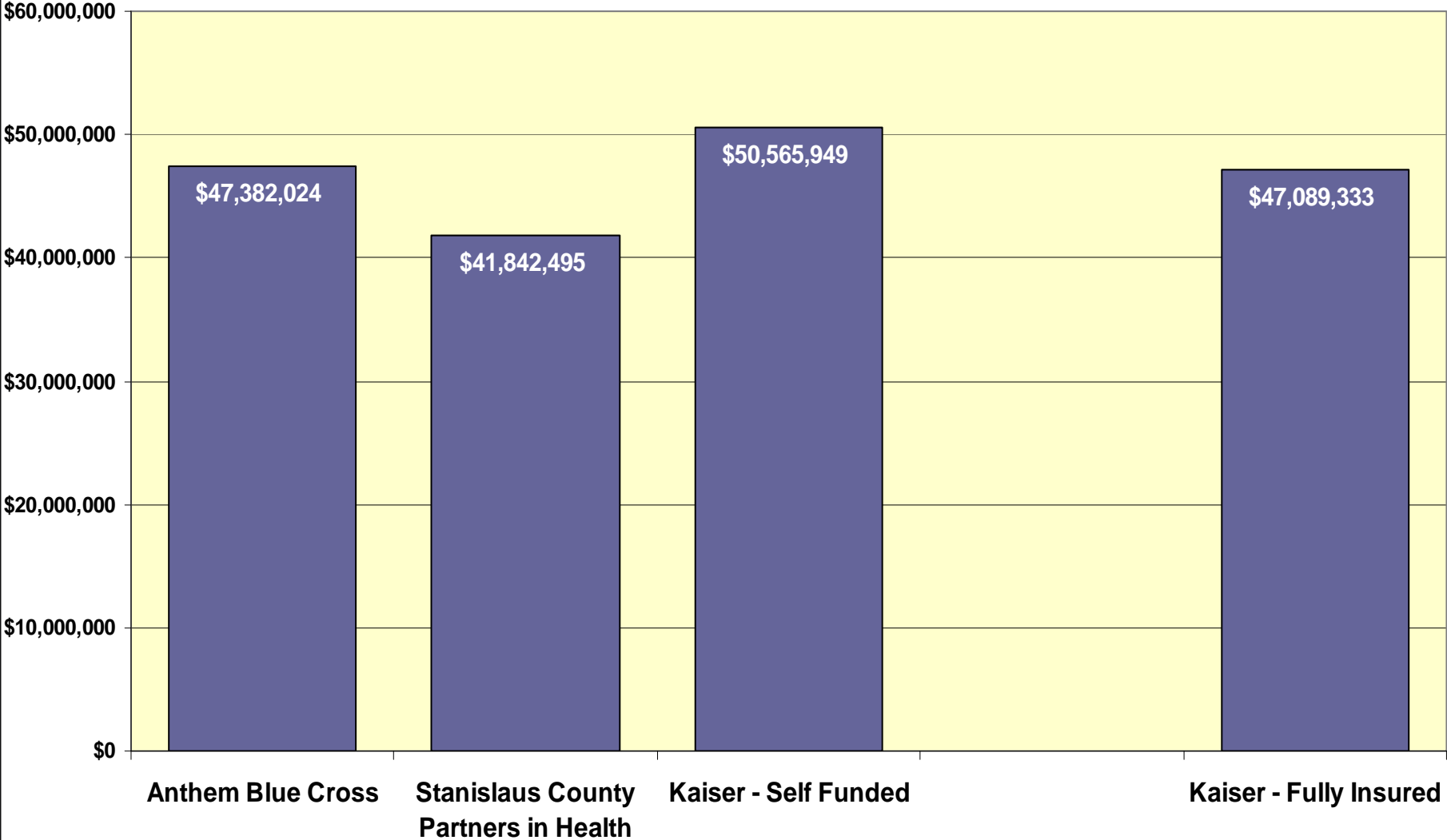
Stanislaus County Partners in Health

- Not-for-profit mutual benefit corporation
- Local, robust provider network
- National provider network with over 590,00 healthcare professionals and 4,200 hospitals
- Nurse care advocates
- Complete access to aggregate clinical and financial data relevant to the County's plan
- Regional and national *Centers of Excellence*
- Over 80 local pharmacies and over 60,000 pharmacies nationally
- Competitive, multi-year provider agreements
- Full integration of plan data



2012 Self Funding Projections

Program Cost Assuming All Employees
Enrolled in Each Plan Option



Consultant projections based on cost data provided by health plans.

Project Outcome

- New EPO plan available for the upcoming open enrollment; plan will be effective January 1, 2012
- New self-insurance funding program developed for all three health plan options
- Starting January 2012, County will have a new financial and clinical reporting structure
- County will now focus on evaluating and managing employee health programs through the new reporting structure

Health Insurance Program Review

- Worked with employee labor organizations to consider new health plan options and strategies to address pending rates increases for 2012
- County reached tentative agreement signed by all 12 labor organizations to implement the new medical plan structure
- Two labor groups were unable to ratify the tentative agreement and have returned to the meet and confer process

Next Steps

- County moving forward with implementing the new health insurance program for those labor groups who have ratified agreements
- Finalizing all contracts and vendor relationships to support implementation of the new health plan and self-insurance program

Implementation of Self-Insurance Funding Model

Health Plan Agreements

- Kaiser Permanente
- Anthem Blue Cross
- Stanislaus County
Partners in Health

Additional New Vendors

- Third Party Administrator
- Pharmacy Benefit Manager
- Stop Loss Insurance
- Clinical Data Management

Staff Recommendations

1. Approve the formation of a self-insured program for health insurance.
2. Authorize the Chief Executive Officer to negotiate all agreements related to the implementation of the self-insured funding strategy.
3. Approve an agreement between the County and Capitol Administrators to serve as Third Party Administrator of the Stanislaus County Partners in Health medical plan.

Staff Recommendations

4. Approve implementation of the County's new medical insurance program as a self-insured funding model effective January 1, 2012.
5. Authorize the Auditor-Controller to create the necessary budgets to implement the County's self-insured medical plan model.