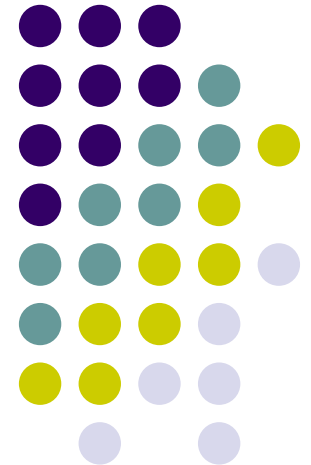


# Workers' Compensation & Third Party Liability – Claims Administration (TPA) Contract

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Business & Commerce Committee  
June 6, 2005





## Issue:

- The City's Third Party Administrator (TPA) Contract with Ward N.A. expires September 30, 2005
- A June 22, 2005 Council Agenda Item requests authorization to award the contract to TriStar Risk Management, one of fourteen vendors to submit a proposal

# Background on Workers' Compensation Program



- City is self insured for all claims under \$750K
- Claims are evaluated and processed by third party administrator (TPA)
- City buys excess workers' compensation insurance for protection against catastrophic claims
  - Insured for losses in excess of \$750K per occurrence
  - Policy premium paid from Purchased Insurance Fund
- Amount needed to pay claims is estimated during budget process and allocated to departments based on:
  - Previous claims experience (five year average)
  - Total FTE's (full time equivalents)



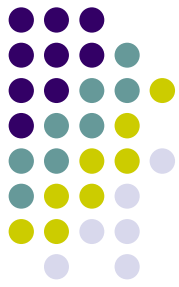
# Background on Liability Claims Program

- City is self-insured for all liability claims
- Amount needed to pay claims is estimated during budget process and allocated to departments
  - Based on departments' claims experience and exposure
  - Departments transfer funds to the Risk Fund based on allocation
- TPA evaluates and processes claims involving bodily injury or property damage caused by negligence of City employee
  - Payments may be limited by Texas Tort Claims Act
  - Could be barred by governmental immunity
- City Attorney's Office defends lawsuits and claims involving death, excessive force, employment practices, demolition, discrimination, etc.

# Services Provided by TPA

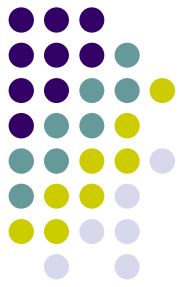


- WC and Liability claims administration
  - Determination of eligibility
  - Payment recommendation
- WC cost containment
  - PPO network, pharmacy card
  - Medical, hospital, pharmacy bill auditing
  - Pre-authorizations
  - Case Management
  - Peer reviews
- WC Legal representation for Texas Workers' Compensation Commission issues
  - TWCC becomes a division of Texas Department of Insurance September 1, 2005



# Current Contract History

- City issued RFP in 2000
- Awarded 3 year contract to Ward N.A.
  - Original contract expired Sept. 30, 2003
  - Included 2 one-year renewal options
    - First renewal option authorized by Council Aug. 27, 2003; Second renewal option authorized Aug. 25, 2004
  - FY 2000-01 \$2,699,313
  - FY 2001-02 \$2,768,223
  - FY 2002-03 \$2,826,081
  - FY 2003-04 \$2,885,195
  - FY 2004-05 \$2,743,000



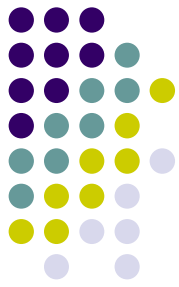
# Steps Taken

- Issued RFP in March, 2005
- An evaluation team established to include PartnerSource/Marsh
- Received 14 proposals
- Evaluated proposals-narrowed field to 5 finalists
- Interviews performed – top vendor selected
- Business Development & Procurement negotiated with vendor

# Recommendations For FY 2005-06



- Recommend approval at the June 22, 2005 Council meeting to award contract to TriStar Risk Management for approximately \$12.5M (for 5 year period)
  - GFE participation is 21% (goal is 36.3%)
    - GFE vendor is Injury Management Organization - (approximately \$2.5M)
- Secure Risk Management Information Software (RMIS)
  - Consultant, Aon, recommends immediate purchase of software
  - Purchase of software provides disaster recovery in the event of catastrophic loss



# Recommendations (cont'd)

- Claims data reside in software managed by the TPA
  - City not in control
  - Risk data not centralized
- Acquisition of RMIS will enable us to consistently capture, analyze and report on injuries, costs and absenteeism
- RFP is being developed



# ● Exhibit 1

## Aon's Recommendation for Disaster Recovery



**ROGER CLARK**  
**Senior Vice President**  
**Telephone (214) 989-2265**  
**Fax (214) 989-2304**

June 2, 2005

Mr. Ford Farris  
Assistant Director  
Human Resources Division  
City of Dallas  
1500 Marilla, 6AN  
Dallas, TX 75201

**RE: PROPOSAL FOR RISK MANAGEMENT INFORMATION SYSTEMS CONSULTING  
DISASTER RECOVERY PLAN**

Dear Ford:

Our revised proposal from the Risk Technology Consulting Division (RTC) of Aon E-Solutions Group was sent to the City on May 27, 2005. Our proposal was revised to comply with the City's Business Development & Procurement Services protocol.

A Risk Management Information System designed and implemented to fit the specific needs of the City, including owing/controlling its historical data, is a vital and necessary step towards establishing an overall Disaster Recovery Plan. I endorse and recommend the proposal. I think it is the correct approach for the City. I believe it is the best way for the City to be sure it ends up with the right RMIS and establish data independence.

Call me if you have any questions or feel free to call David Bartel, Director of RTC. Thank you for your consideration.

Yours truly,

Roger Clark  
Senior Vice President



## ● Exhibit 2

# Aon's Recommendation on Guaranteed Cost



**ROGER CLARK**  
**Senior Vice President**  
**Telephone (214) 989-2265**  
**Fax (214) 989-2304**

September 21, 2004

Mr. David K. Cook  
Chief Financial Officer  
City of Dallas  
1500 Marilla Street  
Dallas, TX 75201

**RE: WORKERS' COMPENSATION INSURANCE**

Dear David:

Over the past several years, Aon Risk Services has had numerous conversations with the City's Risk Management Department regarding the funding of Workers' Compensation insurance. Many of these conversations focused on the viability of buying Workers' Compensation Insurance on a "Guaranteed Cost" program versus the current program which is a \$750,000 per claim Self-Insured Retention.

The purpose of this letter is to outline the major differences between these two programs. Our comments below are based on the assumed scenario that the City purchased Guaranteed Cost insurance, effective January 1, 2005, for the 2005 calendar year.

1. Under a Guaranteed Cost program, the cash outlay in 2005 for premiums and paid losses would be, at a minimum, twice the cash outlay from the previous program. The cash outlay in 2005 would be the cost of the "Guaranteed Cost" premium plus loss payments on years prior to 2005. These higher cash payments would continue for several years (5+) as payments for older year's claims are finalized.
2. The administrative expenses associated with a Guaranteed Cost program are much higher than a SIR program. While frictional expenses such as premium taxes, mandated assessments and surcharges, risk transfer premiums and profit margins are included in both programs, the base line to calculate these changes is much higher on a Guaranteed Cost program. We estimate that administrative expense on a Guaranteed Cost program would be \$2,000,000 to \$3,000,000 per year higher than the current program.
3. Under a Guaranteed Cost program, the City will lose some degree of control flexibility over claims handling and claim settlements.
4. Under a Guaranteed Cost program, there is no reward to the City for good loss experience. Conversely, since there is also no penalty to the City for poor loss experience, underwriters will be very conservative in their pricing models and probably charge premiums that give insurance companies a high degree of protection.
5. A Guaranteed Cost program has a known fixed cost and is relatively easy to budget, compared to a SIR program where the City is, to a large extent, self-insuring its losses.

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**CONFIDENTIAL**

Given the cash requirements and administrative expenses associated with a Guaranteed Cost program, we do not think it would be a money-saving opportunity for the City. Further, Texas Mutual Insurance Company (market of last resort) may be the only insurance company agreeable to offering a Guaranteed Cost program to the City. When the City published the Workers' Compensation Request for Proposal for coverage effective October 1, 2004, the City asked for Guaranteed Cost options and none of the responders offered this option.

However, if the City believes it should obtain a proposal for Guaranteed Cost, we will represent and assist the City in any way we can.

Yours truly,



Roger Clark

cc: Mr. Ford Farris  
City of Dallas