

**INSURANCE ADVISORY BOARD
100 NORTH ANDREWS AVENUE
8TH FLOOR CONFERENCE ROOM
FORT LAUDERDALE, FL 33301
WEDNESDAY, MAY 4, 2011 – 8:00 a.m.**

MEMBERS	ATTENDANCE	CUMULATIVE	
		PRESENT	ABSENT
Joseph Cobo, Chair	P	4	1
Mark Schwartz, Vice Chair	P	5	0
Joe Piechura, Sr.	A	4	1
Jim Drake (arr. 8:13 a.m.)	P	5	0
Charles Grimsley	P	4	1
Steve Botkin	P	3	2
Jonathan Macy	A	4	1

Staff

Guy Hine, Risk Manager
Dennis Stone, Employee Benefits Coordinator
Douglas Wood, Finance Director (arr. 8:28 a.m.)
Alan Florez, Executive Vice President, PRIA
Mike Walker, Procurement & Contracts Manager
Barbara Hartmann, Prototype, Inc., Recording Secretary

Communication to City Commission

None.

1. Roll Call (including number of appointed members and quorum)

As of this date there were 7 appointed members to the Board, which means that 4 would constitute a quorum.

Vice Chair Schwartz called the meeting to order at 8:03 a.m. Roll was called and it was determined a quorum was present.

2. Approval of Minutes of April 6, 2011

Motion by Mr. Schwartz, seconded by Mr. Botkin, to approve the minutes of the April 6, 2011 meeting. In a voice vote, the motion passed unanimously.

3. Communications to City Commission

None.

4. Unfinished Business

- **Review of and motion to approve Workers' Comp TPA RFP technical specifications**

Mr. Hine advised the Board that there were a few things he had changed on the technical specifications since the last meeting. He said the technical specifications are very important because of challenges that the City had last year. Mr. Hine said that Mr. Walker would take this document to the City Commission as soon as the Board signs off on it. Mr. Hine continued that they are seeking a three-year contract with a one-year option.

Mr. Hine reviewed the minimum requirements:

- Be authorized/licensed as claims administrator in State of Florida.
- Be approved by City's current excess carrier.
 - Should apply to all of the City's excess carriers.
- SAS 70/SSAE 16 compliant through life of contract.
 - The actual applicant, not the parent or affiliate, has to be compliant.
 - Compliance at time of bid submittal, not after award.
- Prior experience handling Florida municipal claims with at least one client having at least 1500 employees.
 - Mr. Hine would rather have this go through an Evaluation Committee than eliminate an applicant who did not service a client with that number of employees.
 - It is the corporate applicant, not its staff, who has to have the experience.
 - Principals have been taken out of all RFPs, only the company itself is mentioned.
- Must be in full compliance with Federally mandated SCHIP and Florida EDI requirements
- Must have an office or be willing to open an office in the Tri-County area.
 - Miami-Dade, Broward and Palm Beach.

Mr. Hine liked the quarterly face-to-face meetings City staff has with Gallagher Bassett, and found them productive. A nurse and legal counsel also attended the meetings. Mr. Hine said it is important to him that the meetings can be held close by and he wants to increase their volume.

Mr. Hine directed the Board's attention to p. 5, Administrative Services. Under Item A, he noted that the SI-17 report is annual and the SI-19 is every three years. Regarding Item B, he said that this report was their major challenge last year. Item E is the "lag" report, now referred to as regulatory compliance rating.

[Mr. Drake joined the meeting at 8:13 a.m.]

Mr. Hine continued to p. 6, letter G, and said he wanted to tighten up the language in that item. He said last year they had four companies that all bid around \$1M to \$1.3M, and two companies were substantially lower - \$600,000+ and \$700,000+. He said he was concerned that there may be a misunderstanding of chargeable items from the companies that bid low. He explained that the parameters mentioned in letter G are supposed to be the only places the carriers can charge for something other than for a flat fee. Some companies, however, charge "extra" fees for every time a report is sent back and forth to the State. He said that should be included in the flat fee. He suggested adding in the language, "and any other allocated expense must be approved by the City." He also suggested clarifying what would constitute an allocated expense.

Mr. Grimsley asked where the dedicated adjuster requirement was in the document, and Mr. Hine answered it began on the bottom of p. 2 under "Staffing and Personnel Requirements" and continues onto the first full paragraph on p. 3. He commented that his experience has been that a "dedicated" adjuster must work only on one account, but a "designated" adjuster is the only person working on one account, who also may work on others.

Mr. Walker wondered if the dedicated adjuster would refer to one person or more. Chair Cobo said it would be difficult for one person, and Mr. Hine felt it could be more than one. He said at this moment the City has about 250 open indemnity cases, and two will probably be "the magic number." Mr. Schwartz wondered if they could specify a minimum of two adjusters, and Mr. Hine replied that it could be worded as such.

Mr. Grimsley asked to what extent the City can ask for a carrier's experience with other's clients. Mr. Hine answered that he did not think that posed a problem, as many companies are willing to share their experience, although not in particulars.

Mr. Hine directed the Board's attention to the Supplemental Questions handout. He explained that the questions numbered 1 – 7 are questions he would like to add, and the questions beginning with "A" are the questions from the previous year. He thought that the numbered questions have to be asked. He said he preferred that the pricing criteria would be a little lower percentage, but it is going to be 30%. He was told they could use the other 70% (experience, expertise and so forth) in that field to evaluate them. Points will be given in each category. Mr. Hine thought that the first four questions (1 – 4) addressed Mr. Grimsley's concerns.

Mr. Drake wondered how the situation would be handled if a company had experienced personnel, but the bidder was relatively new. Mr. Hine explained that last year the document said that the company must have five years of experience or more, and/or the principals. Ideally, Risk Management would like the company itself to have at least five years of experience, because a new company has a lot of "tweaking" to do and pitfalls to avoid. He reiterated they are not trying to exclude any company in particular, but would rather see a company with the necessary experience and expertise.

Mr. Botkin said it sounded as if they are broadening the field rather than narrowing it. Mr. Hine commented that is what they had in the RFP last year and if they change it around now, it will not be perceived well.

Mr. Hine reiterated the importance of this contract and asked anyone else who could attend the meetings of the Evaluation Committee to please do so. If the matter of the contract is not handled right, the City could lose a lot of money.

Mr. Hine returned to the first document, the WC TPA Technical Specifications, noting the wording was going to be tightened up on p. 6. On p. 8, Item Y, Mr. Hine said the penalties are often referring to a late payment to an employee.

[Mr. Wood joined the meeting at 8:29 a.m.]

Mr. Hine mentioned that the Evaluation Committee will meet in late June. Mr. Walker added that the Committee usually meets once, unless they decide to hear oral presentations. Mr. Schwartz said he could also attend with enough notice. Mr. Hine said the only City Commission meeting to be held in August would be the third Tuesday of the month. The contract does not start until October 1st, so there is plenty of time.

Mr. Hine then directed the Board's attention to p. 14, and pointed out Item K, Account Manager. He stated that account management is checks and balances and he wants someone there (although that person does not have to be dedicated to the City's account) to run reports for the City and watch over the account. He did not want that person to be the Branch Manager or Supervisor.

Mr. Hine brought up the bolded paragraph on p. 14, and said the wording will be changed to read: "Fees proposed must be all inclusive of the above noted services. Any fee proposals that are structured to the contrary will not be considered. Fees must include taking over all old claims."

He concluded by saying that the rest of the changes were very minor.

Motion by Mr. Grimsley, seconded by Mr. Botkin, to approve the suggested Workers' Compensation Technical Specifications changes. In a voice vote, the motion passed unanimously.

- **Review of property insurance deductible comparison (deferred until later in the meeting)**

Mr. Hine said that Mr. Florez was in attendance, but he wanted to get copies of the deductible comparison before discussing that item.

5. New Business

- **Review of and motion to approve PBM Administration contract**

Mr. Stone reminded the Board that it was a year ago that Catalyst had been replaced with Express Scripts through a competitive bid process. The projected savings have been about \$500,000. He said the attorneys for the City and Express Scripts have now negotiated a final Administrative Services Agreement, which dictates the daily procedures used by Express Scripts. Mr. Stone commented that with Catalyst there never was an agreement, as the attorneys could not concur.

Mr. Stone explained that because the Commission never saw this Agreement, it needs to go back to them for approval. On the first page, Item #3 delineates the order of authorities pertaining to the different ingredients of the contract. Commenting on Item #6 on the second page, Mr. Stone said the City currently pays between \$50,000 and \$100,000 per week in prescription drug claims which is paid through a wire to AvMed that in turn pays Express Scripts. As of June 1, 2011, the City will pay Express Scripts directly.

Rather than review the entire 33-page document, Mr. Stone moved to Item 22.3(b), which addresses pre-authorization procedures that began in December when Express Scripts contacted 300 employees to make sure the high-cost drugs they are using are still medically necessary.

Under 2.3(d), the City is changing the review of prescription drug declinations and/or grievances to an internal committee instead of Express Scripts (which would have cost \$1,000 per month). Legal is helping set this up.

Under 2.6, Pharmacy Management Funds, Express Scripts will reimburse the City \$30,000 for set-up charges and provide (\$450,000) rebates for the past year. These dollars cannot be received until the contract is signed.

Under C, Specialty Products, Mr. Stone explained that Express Scripts subs their specialty products (such as injectibles) to a specialty vendor.

Mr. Stone continued, pointing out Item 3.2(b), and noting the payment is done by wire transfer every week. If the City misses two transfers of money (a month's worth of billings), Express Scripts can demand a deposit from the City. He said that the City's Legal staff said it is illegal to put taxpayer money into an account managed by a third-party, so they worked out a special dual-account arrangement. To avoid the necessity of a deposit, the City is taking over the direct billing, rather than going through AvMed.

Mr. Stone explained what was included in the four pages of discounted Pharmacy Rates. At this point, it appears that the City is about half-a-million dollars ahead of the previous year.

Mr. Stone continued, directing the Board's attention to the bottom of the page where

rebates are addressed. Within the first 12 months, the City had \$411,000 and another amount of money will be added to that, totaling about \$450,000 in rebates. That amount is almost double what Catalyst was paying the City in rebates.

Exhibit B, Audit Protocol, states in what manner the City can audit the discounts. Since the discounts are considered trade secrets, they are kept at the company's headquarters in St. Louis. An auditor representing the City would have to go there to perform an audit at a cost of about \$20,000.

Chair Cobo asked if their rates were their normal discount rates or rates given specifically to the City. Mr. Stone answered that they were rates given to the City, and they are considered trade secrets not to be made public.

Under Performance Standards (Exhibit E), Mr. Stone commented that if the City has concerns with any of the standards, they can charge back a certain amount in "performance rebates." He added there are always issues with carriers, but overall they have been a good, responsive carrier.

In conclusion, Mr. Stone said the City is about \$500,000 ahead in lower claims and higher rebates for the last 12-month period.

Mr. Botkin asked how many members were in the plan, and Mr. Stone said there are approximately 4,550 members. There are 2,000 actual employees.

Motion by Mr. Grimsley, seconded by Mr. Botkin, to approve the PBM Administration contract. In a voice vote, the motion passed unanimously.

- **Review of health plan – 2011 update – 2012 forecast**

Mr. Wood, Finance Director, introduced himself, noting he has recently moved from Texas.

Mr. Stone commented that they do not have actuarial numbers ready yet but said they had discussed dipping into the surplus for \$2.7M this year, but are doing about \$1M better than that. One reason is the prescription drugs, and another reason is the plan changes made in January. Currently the City is under the claims estimate by \$1.6M.

Mr. Stone reported that the City Commission has requested information on domestic partners, and staff is looking into this additional cost. Other than that, there will be anticipated cost increases for employees, whether it is in co-pays, co-insurance or rate increases. People are not using the plan as aggressively as before and that has helped keep costs down.

Mr. Hine noted that the changes made in deductibles and co-pays have affected employees' use of the plan – they are using it less. He added that if they continue as

they have the last few months, the amount paid should go down even further.

Mr. Botkin wondered if there was a disincentive for dependents being on the plan. Mr. Stone said they plan to look at that in the next cycle, but the City makes about 75% of the contribution and it is evenly spread along all members in the plan. He mentioned that Broward School District now pays 100% of the employee's share and the dependents have to pay their full share. When the School District made that change, the City saw large numbers of dependents added to its plan, as dependents migrated over. Mr. Stone said they are looking at giving incentives to members moving off the plan as well as eliminating dependents who may have medical coverage available through their employer.

- **Review of property insurance deductible comparison**

Chair Cobo returned to the discussion of the property insurance deductible comparison.

Mr. Florez referred to the revised schedule of claims during Wilma, noting that he made sure what the current value of each location was and made sure the 5% was commensurate with the value of the building. He took last year's policy and the \$5M flat deductible (which is the current policy) and applied the losses to see what would have been paid out, and then compared the values.

With the 5% deductible and for the buildings listed, the City would be out of pocket \$2,255,000. Under a \$5M flat deductible, the City would be out of pocket \$3.1M. The carrier would pay \$147,000 under the 5% deductible, and under the flat deductible the carrier would pay nothing.

Regarding the 41 miscellaneous properties, ball field lighting and lifeguard towers, Mr. Florez commented that once the \$5M deductible was "pierced," there would start to be a payout. On the far right column, Mr. Florez pointed out the net settlement of \$171,740. He said that an additional \$317,000 should be added in for the lifeguard towers, as they are now covered.

As anticipated, the City would pay more out of pocket on the flat deductible versus the percentage on a smaller storm. However, the \$5M flat deductible has the advantage of capping the deductible. Under the 5%, there were essentially two deductibles (utilities and non-utilities). Five percent of \$250M on each (utilities and non-utilities) is \$12.5M maximum on each that could be paid on a catastrophic storm. Now, however, the worst case scenario in a major storm would be a maximum of \$10M payout.

Mr. Florez remarked that when talking about exposure, it is easier to imagine a more catastrophic loss on the non-utility side than the utility side. A more likely scenario is a catastrophic loss on the non-utility side. If that were to occur and there is a \$100M+ loss, the most the City would be out of pocket would be \$5M on the non-utility side.

By choosing the \$5M flat deductible, the City saved some money, but there is more to pay out of pocket for smaller claim scenarios. The benefit is, however, that the amount of the payout is known. That allows the City to react quickly in a disaster, as it would not have to wait for FEMA's or the carrier's money.

Mr. Schwartz asked if, in the small storm scenario, the City would collect around \$500K for the lifeguard towers, and Mr. Florez said that was correct.

Mr. Hine noted that the Board had decided to go with the \$5M deductible to provide more protection in the event of a larger storm (category 3-4-5).

Mr. Schwartz commented that on the non wind-resistant buildings the deductible used to be higher than \$5M. Mr. Hine said both towers are \$250M in value, and that would be a \$12.5M deductible at the 5% level for each tower. Mr. Florez said that was exactly why it was a tough sell to the carriers: they wanted the 5%/\$5M minimum deductible situation.

6. Open Business – Old/New Business

None.

7. Schedule Next Meeting – July 6, 2011

Mr. Hine remarked that he and Mr. Stone originally wanted to meet in July for the medical contract. As it turns out, that timing will not work. Mr. Hine said, then, that there is nothing to go over in June or July, but August is critical.

Chair Cobo said the next meeting would be the first Wednesday in August, which is August 3. By consensus, the Board agreed to that date.

8. Adjourn

Motion by Mr. Schwartz, to adjourn the meeting at 9:02 a.m.

[Minutes prepared by J. Rubin, Prototype, Inc.]