TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES

DATE: SEPTEMBER 19, 2005 CMR: 327:05

SUBJECT: APPROVAL OF A ONE-YEAR CONTRACT IN THE AMOUNT OF $100,000 WITH DELTA DENTAL FOR CLAIMS ADMINISTRATION SERVICES FOR THE CITY OF PALO ALTO’S SELF-FUNDED DENTAL PLAN AND AUTHORIZATION FOR CONTRACT EXTENSIONS FOR TWO ADDITIONAL YEARS

RECOMMENDATION

Staff recommends that Council:

1. Approve and authorize the Mayor to execute the attached contract with Delta Dental in the amount of $100,000 for one year to provide third-party claims administration services for the City of Palo Alto’s dental plan.

2. Authorize the City Manager or his designee to exercise the option to renew the contract in the amount not to exceed $100,000 for the second year; and in the third year by an amount not to exceed $105,000 (5% increase) provided Delta Dental is responsive to the City’s needs, and the quality of its work is acceptable during the term of the contract.

BACKGROUND

The work to be performed under the contract is for third-party claims payment administration services for the City’s self-funded dental plan, currently provided by Select Benefits Administrator. At the end of its second year term of its contract with Select Benefits Administrator, the City requested proposals for these services to determine if lower claims costs could be achieved. The last Request for Proposal (RFP) for dental claims administration services was conducted in 2003. That process resulted in four proposals ranging from $62,040 to $103,884. After analyzing and comparing the proposals, Select Benefits Administrators was awarded a one-year contract with an option to renew up to two additional one-year terms, or through June 2006. While the City has not been dissatisfied with the overall services provided by Select Benefits Administrator, the City was seeking to explore the possibility of lowering its claims costs. Furthermore, this change supports the Finance Committee’s recommendation for staff to bring alternatives on how to slow the increase of employee benefits and lessen the impact on infrastructure and other City priorities.
DISCUSSION

A Request For Proposals (RFP) was conducted with the assistance of the City’s benefit broker with the intent to seek a third-party claims administrator who can reduce claims costs while providing high quality customer service, as well as being able to administer the City’s current “incentive model” plan design. The City’s dental plan has a unique incentive plan design that pays an increasing share of the treatment cost provided that the individual utilizes the plan once during each calendar year, recognizing that preventative care will help to control future treatment costs. The percentage of payment is as follows:

<table>
<thead>
<tr>
<th>Year of Eligibility</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>First year</td>
<td>70%</td>
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<tr>
<td>Second year</td>
<td>80%</td>
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<tr>
<td>Third year</td>
<td>90%</td>
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<tr>
<td>Fourth year</td>
<td>100%</td>
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Two proposals were received from Delta Dental and MetLife. The savings the City would realize by changing to Delta Dental would be $61,951 each year with a 5% renewal cap for the administrative fee cost in the third year. The savings the City would realize by changing to MetLife would be $147,702 annually with a 5% renewal cap for the administrative fee in the second and third year.

Human Resources staff carefully reviewed each firm’s qualifications and the recommendation is to select Delta Dental for its extensive dental network and expected reduction in claims costs. Delta Dental also has the capability to administer the City’s unique “incentive model” plan design. City employees will also experience a savings in their claim costs when they visit a Delta Dental-contracted dentist as dentists agree to a lower contracted fee structure. While the savings by changing to MetLife would be greater, the City has not experienced quality service with MetLife recently with its long-term disability plan. In contrast, Delta Dental has a superior reputation for quality customer service and has provided dental administration services for many more years than MetLife. The City’s Purchasing Ordinance allows for selection based on performance rather than cost.

RESOURCE IMPACT

The expected annual savings for dental administration services and claims cost is $61,951 annually. Funds for dental plan administration costs are included in the 2005-2007 Adopted Budget in the General Benefits and Insurance Internal Service Fund and will be adjusted to reflect the change in lowered costs.

POLICY IMPLICATIONS

This request does not represent a change in existing policies.

ENVIRONMENTAL REVIEW

This is not a project under the California Environmental Quality Act.
ATTACHMENTS

Attachment A: Short Form Agreement
Attachment B: Exhibits to Agreements

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