TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES

DATE: DECEMBER 15, 2008 CMR: 477:08

REPORT TYPE: CONSENT CALENDAR

SUBJECT: Approval of a Contract with Delta Dental for Claims Administration Services for the City of Palo Alto’s Self-funded Dental Plan for Up to Three Years in a Total Not to Exceed Amount of $291,412

RECOMMENDATION

Staff recommends that Council:

1. Approve and authorize the City Manager or his designee to execute the attached contract with Delta Dental in the amount of $92,448 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 an amount not to exceed $97,040 for the second year (5% increase); and in the third year by an amount not to exceed $101,924 (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 this contract is for third-party claims payment administration services for the City’s self-funded dental plan, currently provided by Delta Dental. Delta Dental was selected in 2005 when the last Request For Proposal (RFP) for dental claims administration services was conducted. That contract allowed the City to lower its claims cost and achieve cost savings in the amount of $61,951 annually. At the end of the third-year term of the current contract, the City requested proposals for these services to determine if lower claims costs could be achieved beginning in 2009.
DISCUSSION

This year, 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 continue to 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:

- First year of eligibility: 70%
- Second year of eligibility: 80%
- Third year of eligibility: 90%
- Fourth year of eligibility: 100%

Human Resources staff carefully reviewed the two (2) responding firm’s qualifications and recommends continuing its third-party administrator services with Delta Dental. The enhancements offered in the new contract include a new Preferred Provider Option (PPO) plan alternative which will have lower costs for the City and employees who use providers in that plan. It is anticipated to result in a four percent (4%) reduction in claim costs to the City. 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 any Delta Dental-contracted dentist as those dentists agree to a lower contracted fee structure. Delta Dental has a superior reputation for quality customer service and overall has provided good dental administration services to City staff during the last three years while at the same time, producing savings for the City and its employees. Finally, although this contract reflects no change in the level of benefits previously provided, staff involved all of the unions and employee groups, communicated the change in administrators and offered them the opportunity to participate in the selection process.

RESOURCE IMPACT

Funds for dental plan administration costs are included in the 2008-2009 Adopted Budget in the General Benefits and Insurance Internal Service Fund and will be adjusted to reflect the change in lowered claim costs. The claims cost savings over current costs is expected to be approximately four percent (4%) annually.

POLICY IMPLICATIONS

This request 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.

ENVIRONMENTAL REVIEW

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

ATTACHMENTS

A: Agreement
B: Exhibits to Agreement

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DEPARTMENT HEAD: ____________________________
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Director of Human Resources

CITY MANAGER APPROVAL: _______________________
James Keene
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