



Pension & Health Benefits Committee

Agenda Item 7c

March 15, 2022

Item Name: Approval of Solicitation for Long-Term Care Third-Party Administrator and Contract Extension

Program: Long-Term Care

Item Type: Action

Recommendation

Approve the release of a Long-Term Care (LTC) Program Third-Party Administrator (TPA) solicitation.

Approve a 1+1+5 year contract term if the LTC TPA contract is awarded to a new vendor. The 1+1 terms would allow for transition from the current vendor to the new vendor prior to starting the standard 5-year term. Approve a standard 5-year term if awarded to the incumbent.

Approve extension of the current LTC TPA contract with Long-Term Care Group, Inc. (LTCG) for up to 24 months in order for California Public Employees' Retirement System (CalPERS) to complete the 2022 premium increase, the required 2022 Benefit Increase Option (BIO) offer and to provide enough time for the TPA solicitation process and avoid disruption to policy holders.

Executive Summary

The CalPERS Board of Administration (Board) retains the authority for the TPA solicitation strategy, structure, and process for the LTC Program.

This agenda item provides information on the LTC TPA solicitation strategy, structure, and process.

The outlined solicitation and competitive negotiation approach are consistent with Government Code Section 21663 and Public Contract Code section 6611. The expected outcomes for the solicitation include identification of top TPA proposals, agreement by proposers to contractual terms desired by the CalPERS, and best and final offers for Board consideration.

Every five years, CalPERS undergoes a competitive solicitation process to identify LTC Program TPAs that will provide the best administrative services for the CalPERS LTC Program. The current contract is set to expire December 31, 2022. The anticipated release date of the solicitation is spring 2022.

In addition to the authorization to move forward with an RFP in spring 2022, we are requesting approval of an extension of the current LTC contract for up to an additional 24 months. The extension would accommodate the 12 months that it typically takes to complete a procurement, as well as the time that is needed to transition to a new vendor if one is selected. The extension would also mitigate disruption that could occur if we were to try to transition to a new vendor sooner. Over the next 24 months, CalPERS will be conducting the second of the two Board approved rate increases, a BIO offer, and a potential new plan offering (aging in place/managed care).

A spring 2022 solicitation release date is necessary to award the contract and allow for an 18-month transition with a possible new vendor no later than January 1, 2025, and to stay within the requested 24-month current contract extension. If a new TPA is awarded, there will be an up to two-year transition and a five-year standard term contract. If the incumbent is awarded the contract, there would be no transition, and the contract would be a five-year standard term contract to start at contract award in approximately spring 2023.

Extending the current contract would minimize policyholder disruption as we complete the two-year program stabilization rate increase and required BIO offer.

Strategic Plan

This agenda item supports the CalPERS 2017 – 2022 Strategic Goals of “High-Quality Affordable Health Care” and “Fund Sustainability.”

Background

In accordance with Government Code Section 21663, Program is requesting to initiate work on a solicitation to procure a new LTC TPA contract effective no later than January 1, 2025.

The CalPERS LTC Program has provided long-term care benefits to its policyholders for over 27 years beginning in 1995. The Program provides reimbursement for eligible LTC services received by policyholders in claim. The CalPERS LTC TPA provides all administrative services for the program including but not limited to:

- Customer service
- Premium collection
- Coordination of benefits
- Care advisory services
- Claims adjudication
- Claims payments
- Rate Increases
- Benefit Increased Options (BIOs)
- Policy oversight
- Policyholder communication
- Coverage changes: increases and decreases
- Application processing and underwriting for reinstatements and coverage increases
- Fraud waste and abuse detection/prevention services
- Reporting
- Care provider network
- Website and PolicyHub for current policyholders

In June 2020, the Board voted to suspend open enrollment due to current uncertainty in the LTC market. Therefore, the LTC Program is not accepting applications at this time. As of December

31, 2021, the program had approximately 108,398 policyholders with 6,864 in claim and receiving benefits.

On November 18, 2020, the Board approved a 52% rate increase for November 2021 and a second increase of up to 25% in 2022. The second planned rate increase is scheduled for November 2022.

A rate increase takes up to one year to implement because the effective date of the increase is based on a policyholder's billing cycle. The second increase will not be completed by December 31, 2022 when the TPA contract term ends.

Also, in 2022 our TPA will be administering a BIO offer to policyholders. The BIO is contractually required every three years, according to policyholders' Evidence of Coverage (EOC). The next BIO is scheduled for spring 2022.

Included for reference and approval are the Minimum Qualifications (Attachment 1), Solicitation and Proposal Evaluation Process (Attachment 2), and Schedule of Events (Attachment 3).

Analysis

CalPERS Board Resolution No. 92-04B-4, April 19, 1995, states the Board may permit the award of a contract for more than a five-year term. The Health Branch requests an up to 24-month extension of the current TPA contract with LTCS. Extending the current LTC TPA contract for up to 24 months will enable CalPERS to successfully implement the second proposed rate increase and the required BIO in 2022.

If the current LTC TPA contract is not extended, CalPERS runs the risk of delaying the second proposed rate increase, which could result in a larger rate increase for policyholders. It also runs the risk of not being able to implement the 2022 BIO, which is a requirement in policyholder EOCs. Finally, with a possible transition of all policyholder data to a new vendor, extending the current contract would minimize the likelihood of additional disruption.

Solicitation

The LTC TPA is a board retained authority solicitation. It is a complex process that requires thousands of person hours in numerous functional areas within CalPERS.

At the time the 2018-2022 contract was awarded, a two-year rate increase was not anticipated. The current TPA has completed the 2021 rate increases and is implementing the 2022 rate increase for November 2022. The 2022 increase will continue into 2023 due to policyholder billing cycle dates. Transitioning to a new vendor during a complex rate increase, as well as the required BIO implementation, would cause significant disruption and customer abrasion.

LTC Solicitation and Competitive Negotiation Approach

Program is currently working with the Operations Support Services Division (OSSD) and the Legal Office on the solicitation approach utilizing a competitive negotiation process. This approach is consistent with Government Code Section 21663 and the State of California's Public Contract Code Section 6611.

A competitive negotiation process permits the consideration of price, technical experience, management, or other factors in selecting the most cost-effective proposal. The process includes negotiations with the most qualified proposers during which performance, technical standards, or other criteria may be discussed to secure proposals most advantageous to CalPERS.

Solicitation Structure

The proposers will be required to submit an offer, providing evidence of their ability to meet solicitation requirements including, but not limited to:

- **Qualifications Requirement:** Proposers must demonstrate that they meet specified minimum qualifications.
- **Technical Requirements:** Proposers must describe their services, capabilities, management, and staffing plans and agree to contract provisions desired by CalPERS. Within CalPERS desired contract provisions, there would be core, non-negotiable, and negotiable provisions.
- **Financial Requirements:** Proposers must include third-party administrative costs to perform the services for the duration of the contract.

Budget and Fiscal Impacts

A two-year extension would lengthen the existing contract term from January 1, 2018 – December 31, 2022 to January 1, 2018 – December 31, 2024. The 2021 contract amount was approximately \$19 million based on total policyholders Per-Member Per-Month (PMPM) and is expected to be approximately \$18.5 million for 2022 with the current total policyholders.

Benefits and Risks

Benefits

1. Extending the current LTC TPA contract for up to 24 months will enable CalPERS to implement the second rate increase and the contractually required BIO in 2022 with minimal impact to policyholders resulting from a solicitation.
2. Implementing an up to 24-month contract extension would enable CalPERS to continue to provide the services to the current policyholders with minimal customer abrasion, confusion, and disruption.
3. Extending the contract reduces solicitation and transition disruptions and costs during a time of uncertainty in the LTC marketplace. Allows CalPERS to better research innovative programs that may be emerging in the LTC marketplace.

Risks

1. If the current LTC TPA contract is not extended for up to 24 months, the CalPERS Program runs the risk of not being able to implement the second rate increase, which could create the need for a rate increase in excess of 25%.
2. The CalPERS LTC Program also runs the risk of not complying with policyholders' EOCs if the 2022 BIO is not provided.

Attachments

Attachment 1 – Draft Minimum Qualifications

Attachment 2 – Draft Proposal Evaluation Process

Attachment 3 – Draft Proposal Evaluation Sheet

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