



## Pension and Health Benefits Committee Agenda Item 5

December 20, 2016

**Item Name:** Long-Term Care Program Solicitation Update

**Program:** CalPERS Long-Term Care Program

**Item Type:** Information

### **Executive Summary**

This agenda item updates the Pension and Health Benefits Committee (PHBC) on the Long-Term Care (LTC) Program Solicitation for a Third Party Administrator (TPA). Staff is in the process of evaluating the competitiveness of potential TPAs in terms of their capacity to meet the California Public Employees' Retirement System (CalPERS) service requirements, pricing, and contractual terms. In the spring of 2017, staff will present to the PHBC this evaluation, which will include agreed upon contractual and implementation terms. The CalPERS Board of Administration (Board) may then choose to award a contract to one of the TPAs.

### **Strategic Plan**

This agenda item supports Strategic Plan Goal A – “Improve long-term pension and health benefit sustainability.”

### **Background**

In June 2016, staff presented the LTC Solicitation strategy, structure, and process. Since this date, staff have developed and released the Solicitation, which is being conducted in a two-phased approach.

#### Phase I

On June 28, 2016, CalPERS released Phase I of the Solicitation, which set forth the minimum qualifications each TPA was required to meet in order to move to Phase II of the Solicitation. The minimum qualifications included being a licensed TPA with at least five years of experience administering long-term care program services of at least 20,000 total covered lives. Each Firm certified in writing that it met all of the minimum qualifications and was required to provide evidence of how each qualification was met.

#### Phase II

On September 19, 2016, CalPERS commenced with Phase II of the Solicitation. In this phase, TPAs must demonstrate their capabilities, management philosophy, including commitment to cross-organizational resources, and technical understanding of the required services needed to operationally support CalPERS LTC Program and enrolled participants.

In the Phase II submissions, TPAs completed specific Plan worksheets (i.e., TPA's Capabilities, Work Plan, Management Plan, and Staffing Plan). Through these worksheets, TPAs

endeavored to demonstrate a thorough technical understanding of CalPERS service requirements and an ability to meet them by providing a detailed response of how their TPA will operationally administer the CalPERS Long-Term Care Program. In addition, TPAs were asked to include any innovative or alternative methods that may more efficiently and cost-effectively achieve CalPERS goals and objectives.

Phase II also required a financial plan. This plan required TPAs to provide Administrative Service Fee (ASF) pricing for the entire five-year contract term on a Per-Member Per-Month basis. Additionally, TPAs must propose a percentage and amount of ASFs to place at risk for performance measures set forth in the draft contract provided in the Solicitation.

#### Confidential Discussions

On November 17-18, 2016, confidential discussions were held in person between CalPERS and the TPAs before the TPAs submitted their Phase II responses. These confidential discussions provided TPAs the opportunity to ask questions of CalPERS and seek clarification of CalPERS requirements and expectations as specified in the Solicitation.

On December 14, 2016, Phase II submissions were submitted to CalPERS.

#### **Current and Next Steps**

##### Preliminary Reviews

CalPERS is currently conducting preliminary reviews of each TPA's Phase II submission. These reviews are being conducted by various staff throughout the CalPERS organization to determine the completeness and responsiveness to the Solicitation. CalPERS is enlisting the use of subject matter experts from within the Enterprise.

##### Evaluation Process

CalPERS will evaluate Phase II submissions and anticipates completing its evaluation by late winter 2017. The evaluation process will verify the proposing TPA's ability to meet the Solicitation's requirements, as well as, their proposed fees for administering the contract. It will also include on-site visits that will verify, through observation and interview, the TPA's ability to assure compliance with the requirements based on its responses regarding its capabilities, as well as, the Work Plan, Management Plan, and Staffing Plan. CalPERS evaluation teams will be comprised of subject matter experts.

Upon completion of the evaluations, only those TPAs that are deemed to be in the "competitive range" will be qualified to participate in competitive negotiations.

##### Competitive Negotiations

During this segment of Phase II, CalPERS will negotiate a contract and implementation plan covering pricing and services to be provided and memorialize the negotiated contract and implementation plan in a letter of agreement. In addition, staff will continue to evaluate each TPA's technical, operational, and management capacity. Staff will then submit the TPAs' final packages to the PHBC for its consideration.

The goals of the competitive negotiation process are greater interaction with the TPAs; flexibility and transparency; ability to provide and obtain more accurate information; and, a negotiated contract prior to any Board action.



**Budget and Fiscal Impacts**

The five-year contract agreement may result in a change in ASF beginning January 1, 2018, through December 31, 2022.

**Benefits and Risks**

This Solicitation is intended to allow CalPERS greater flexibility to consider qualitative differences in proposers' experience and qualifications in administering long-term care services; performance reliability; conduct comparative pricing through competitive negotiations; and, negotiate a contract prior to any award of contract. Risks include possible delays in the Solicitation schedule; protracted contract negotiations; and an extended implementation timeline for a potential transition of LTC TPA services.

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