

A proposal to the

## West Virginia

### Offices of the Insurance Commissioner

RFQ INS11007

*Consulting Services for an  
Enterprise Risk Management Consultant*

Presented by:

## MANAGED CARE INNOVATIONS LLC

316 West Broad Street  
Richmond, Virginia 23220  
804.344.0009 phone  
804.344.4443 fax

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2011 FEB 10 P 12:21

PURCHASING DIVISION  
STATE OF WV



MANAGED CARE  
INNOVATIONS LLC

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Cost Sheet (submitted in separate envelope)	
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**Title Page**

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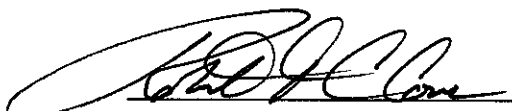
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Richmond, Virginia 23220

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Contact Person:



12-8-2011

Robert T. C. Cone, Principal

Managed Care Innovations LLC

[rcone@mcinnovations.com](mailto:rcone@mcinnovations.com)

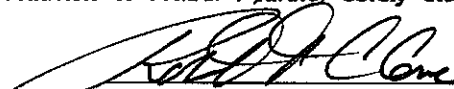
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**GENERAL TERMS & CONDITIONS  
REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL (RFP)**

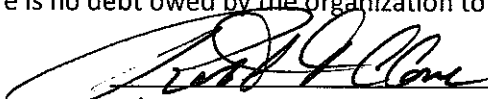
1. Awards will be made in the best interest of the State of West Virginia.
2. The State may accept or reject in part, or in whole, any bid.
3. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required \$125 fee.
4. All services performed or goods delivered under State Purchase Order/Contracts are to be continued for the term of the Purchase Order/Contracts, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods this Purchase Order/Contract becomes void and of no effect after June 30.
5. Payment may only be made after the delivery and acceptance of goods or services.
6. Interest may be paid for late payment in accordance with the *West Virginia Code*.
7. Vendor preference will be granted upon written request in accordance with the *West Virginia Code*.
8. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.
9. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.
10. The laws of the State of West Virginia and the *Legislative Rules* of the Purchasing Division shall govern the purchasing process.
11. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.
12. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.
13. **HIPAA BUSINESS ASSOCIATE ADDENDUM:** The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, is available online at [www.state.wv.us/admin/purchase/vrc/hipaa.htm](http://www.state.wv.us/admin/purchase/vrc/hipaa.htm) and is hereby made part of the agreement. Provided that the Agency meets the definition of a Cover Entity (45 CFR §160.103) and will be disclosing Protected Health Information (45 CFR §160.103) to the vendor.
14. **CONFIDENTIALITY:** The vendor agrees that he or she will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure is made pursuant to the agency's policies, procedures, and rules. Vendor further agrees to comply with the Confidentiality Policies and Information Security Accountability Requirements, set forth in <http://www.state.wv.us/admin/purchase/privacy/noticeConfidentiality.pdf>.
15. **LICENSING:** Vendors must be licensed and in good standing in accordance with any and all state and local laws and requirements by any state or local agency of West Virginia, including, but not limited to, the West Virginia Secretary of State's Office, the West Virginia Tax Department, and the West Virginia Insurance Commission. The vendor must provide all necessary releases to obtain information to enable the director or spending unit to verify that the vendor is licensed and in good standing with the above entities.
16. **ANTITRUST:** In submitting a bid to any agency for the State of West Virginia, the bidder offers and agrees that if the bid is accepted the bidder will convey, sell, assign or transfer to the State of West Virginia all rights, title and interest in and to all causes of action it may now or hereafter acquire under the antitrust laws of the United States and the State of West Virginia for price fixing and/or unreasonable restraints of trade relating to the particular commodities or services purchased or acquired by the State of West Virginia. Such assignment shall be made and become effective at the time the purchasing agency tenders the initial payment to the bidder.

I certify that this bid is made without prior understanding, agreement, or connection with any corporation, firm, limited liability company, partnership, or person or entity submitting a bid for the same material, supplies, equipment or services and is in all respects fair and without collusion or fraud. I further certify that I am authorized to sign the certification on behalf of the bidder or this bid.

 12-8-2011  
Robert T. C. Cone

**3.5 Purchasing Affidavit: West Virginia 5A-3-10a**

Managed Care Innovations LLC affirms that there is no debt owed by the organization to the State of West Virginia.

 12-8-2011  
Robert T. C. Cone



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

# Request for Quotation

RFQ NUMBER

INS11007

PAGE

1

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

RFQ COPY

TYPE NAME/ADDRESS HERE

INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV

25305-0540 304-558-3707

DATE PRINTED	TERMS OF SALE	SHIP VIA	FOB	FREIGHT TERMS
02/03/2011				

BID OPENING DATE: 02/11/2011 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
ADDENDUM NO. 1						
THIS ADDENDUM IS ISSUED TO ADDRESS THE QUESTIONS SUBMITTED PRIOR TO THE QUESTION SUBMISSION DEADLINE OF 1/28/2011.						
0001	1	LS		961-20		
CONSULTING (NOT OTHERWISE CLASSIFIED)						
EXHIBIT 10						
REQUISITION NO.: INS11007						
ADDENDUM ACKNOWLEDGEMENT						
I HEREBY ACKNOWLEDGE RECEIPT OF THE FOLLOWING CHECKED ADDENDUM(S) AND HAVE MADE THE NECESSARY REVISIONS TO MY PROPOSAL, PLANS AND/OR SPECIFICATION, ETC.						
ADDENDUM NO.'S:						
NO. 1 <input checked="" type="checkbox"/>						
NO. 2 <input type="checkbox"/>						
NO. 3 <input type="checkbox"/>						
NO. 4 <input type="checkbox"/>						
NO. 5 <input type="checkbox"/>						
I UNDERSTAND THAT FAILURE TO CONFIRM THE RECEIPT OF THE ADDENDUM(S) MAY BE CAUSE FOR REJECTION OF BIDS.						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'



State of West Virginia  
Department of Administration  
Purchasing Division  
2019 Washington Street East  
Post Office Box 50130  
Charleston, WV 25305-0130

## Request for Quotation

RFO NUMBER

INS11007

PAGE

2

ADDRESS CORRESPONDENCE TO ATTENTION OF

SHELLY MURRAY  
304-558-8801

RFQ COPY

TYPE NAME/ADDRESS HERE

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INSURANCE COMMISSION

1124 SMITH STREET  
CHARLESTON, WV

25305-0540

304-558-3707

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02/03/2011				

BID OPENING DATE:

02/11/2011

BID OPENING TIME

01:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
<p>VENDOR MUST CLEARLY UNDERSTAND THAT ANY VERBAL REPRESENTATION MADE OR ASSUMED TO BE MADE DURING ANY ORAL DISCUSSION HELD BETWEEN VENDOR'S REPRESENTATIVES AND ANY STATE PERSONNEL IS NOT BINDING. ONLY THE INFORMATION ISSUED IN WRITING AND ADDED TO THE SPECIFICATIONS BY AN OFFICIAL ADDENDUM IS BINDING.</p> <p><i>[Signature]</i> ..... SIGNATURE MANAGED CARE INNOVATIONS, LLC COMPANY ..... FEBRUARY 8, 2011 ..... DATE</p> <p>NOTE: THIS ADDENDUM ACKNOWLEDGEMENT SHOULD BE SUBMITTED WITH THE BID.</p> <p>----- END OF ADDENDUM NO. 1 -----</p> <p>***** THIS IS THE END OF RFQ INS11007 ***** TOTAL: _____</p>						

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

**INS11007**

**Addendum #1**

1. Please clarify if the RFP prohibits the Enterprise Risk Management (ERM) consultant from directly providing or subcontracting for specific services in Phase II and III or if the RFP is permitting the ERM to submit a proposal for Phase II services as a general contractor and program manager over all service providers who are subcontractors to the ERM consultant?

**Response:** The successful ERM consultant under this RFP (INS11007) may not submit a proposal under any subsequent RFP, if any, for Phase II (coverage) and/or Phase III (program evaluation) so as to eliminate any conflict of interest. Accordingly, the successful ERM consultant's compensation will be limited solely to consultant fees for the State. The successful ERM Consultant's involvement in Phase II will be limited to developing the criteria for the program and assisting the State with necessary procurement to implement the program. It is also intended that the ERM actively engage in service under Phase III (program evaluation) to assist in the development of necessary audit and management processes.

2. Under the **GENERAL TERMS & CONDITIONS REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL**, Item 1 states: "Awards will be made in the best interest of the State of West Virginia." Section 2.2 states that "the successful Enterprise Risk Management consultant will be likewise ineligible as a provider of actual workers' compensation coverage for this program."

**Question:** In Section 2.2, does the term "coverage" mean a workers' compensation insurance policy?

**Response:** The term "coverage" means one, or more than one, workers' compensation insurance policy, or potentially a program of self-insurance, dependent upon the ultimate methodology selected for addressing State Agency Workers' Compensation needs.

Section 2.5.7 states: "the vendor must identify and briefly describe either your ability to provide any of the following services by your firm, or by contracting the same with a third-party on behalf of your client:

1. Insurance Policy Procurement / Marketplace knowledge and experience
2. Claims Administration Services

3. Establish risk pool participation and funding requirements for the Phase II program
4. Loss Control Services
5. Return to Work Programs
6. Rating/Underwriting Evaluation/Consulting

**Question:** In Section 2.5.7 which relates to services, does this mean that the ERM consultant may bid for providing any of items 1-6 above for either an insured or self-insured workers' compensation program?

**Response:** As noted in the response to question 1, the successful ERM consultant's compensation will be limited solely to consultant fees for the State. However, keeping in mind that the State of West Virginia is a large diverse organization this section of the RFP is intended to evaluate competency on providing these services or upon establishing these types of programs as the successful ERM consultant must advise the State in procuring services in this manner. The ERM consultant must identify and describe their ability to provide each of the 6 services as part of their proposal for this RFP (INS11007). The ERM consultant must specify whether items 1-6 could be handled by the ERM consultant themselves, or via a third party contract.

3. If the proposer responding to Phase I of this RFP uses subcontractors to meet some the services in this RFP, are these subcontractors excluded from bidding or being included in a bid on Phase II of the proposed program?

**Response:** So as to avoid any conflict of interest, for the successful ERM consultant who is awarded the contract and any of their subcontractors, yes.

4. Is there an advisory or other role assumed by the ERM consultant in Phase II, such as assisting in: writing the RFP; evaluating the proposals and; negotiating a contract for Phase III? Should these activities be specified in the Cost Sheet?

**Response:** The successful ERM consultant will be expected to assist in drafting the RFP for Phase II; serve in an advisory capacity during the evaluation of Phase II proposals; and is intended to provide on-going consulting services to assist in the development of necessary audit and management processes under Phase III. These activities should be contemplated within the Cost Sheet.

5. Attachment C - Cost Sheet – Does this Attachment apply only to Phase I? How will pricing be included should the ERM consultant be involved in Phase II? In Phase III? If the bidder uses a subcontractor for part of the services proposed, how should that service be listed separately with the associated pricing?



**Response:** This attachment applies to all Phases, including pricing for any subcontractors of the ERM consultant. Services at all Phases are to be billed at the rate schedule proposed. As per section 2.5.3, resumes and experience of subcontractors used by the consultant should also be provided.

6. Section 2.5.6 references the need for *possible* additional services that may be required of the ERM consultant in Phase I. How should these services be included on the Cost Sheet?

**Response:** All services agreed upon are to be billed at the hourly rate utilizing the proposed fee schedule (Section C, Cost Sheet).

7. Will the State provide the loss information data required for the ERM consultant to complete the analysis and program design recommendations? If not, will the State provide the data analysis required by the ERM consultant to make program recommendations?

**Response:** The State will provide loss, payroll and premium information data, as available, from the current carrier as required for the ERM consultant to complete the analysis and program design recommendations. In addition, the State will make available the services of its currently contracted actuarial firm.

8. The RFP makes no reference to the cost of obtaining quotes for insurance that may be involved in the recommended risk financing package. How should the cost of obtaining these quotes be included on the Cost Sheet?

**Response:** It is currently contemplated that a subsequent RFP for Phase II will be the culmination of Phase I. The cost of obtaining and evaluating these quotes should be contemplated in the hourly rate on the Cost Sheet. Further, the State will bear any cost for publishing any RFP materials.

## **Attachment A: Vendor Response Sheet**

*Provide a response regarding the following: firm and staff qualifications and experience in completing similar projects; references; copies of any staff certifications or degrees applicable to this project; proposed staffing plan; descriptions of past projects completed entailing the location of the project, project manager name and contact information, type of project, and what the project goals and objectives were and how they were met.*

### **Firm and Staff Qualifications and Experience in Completing Similar Projects**

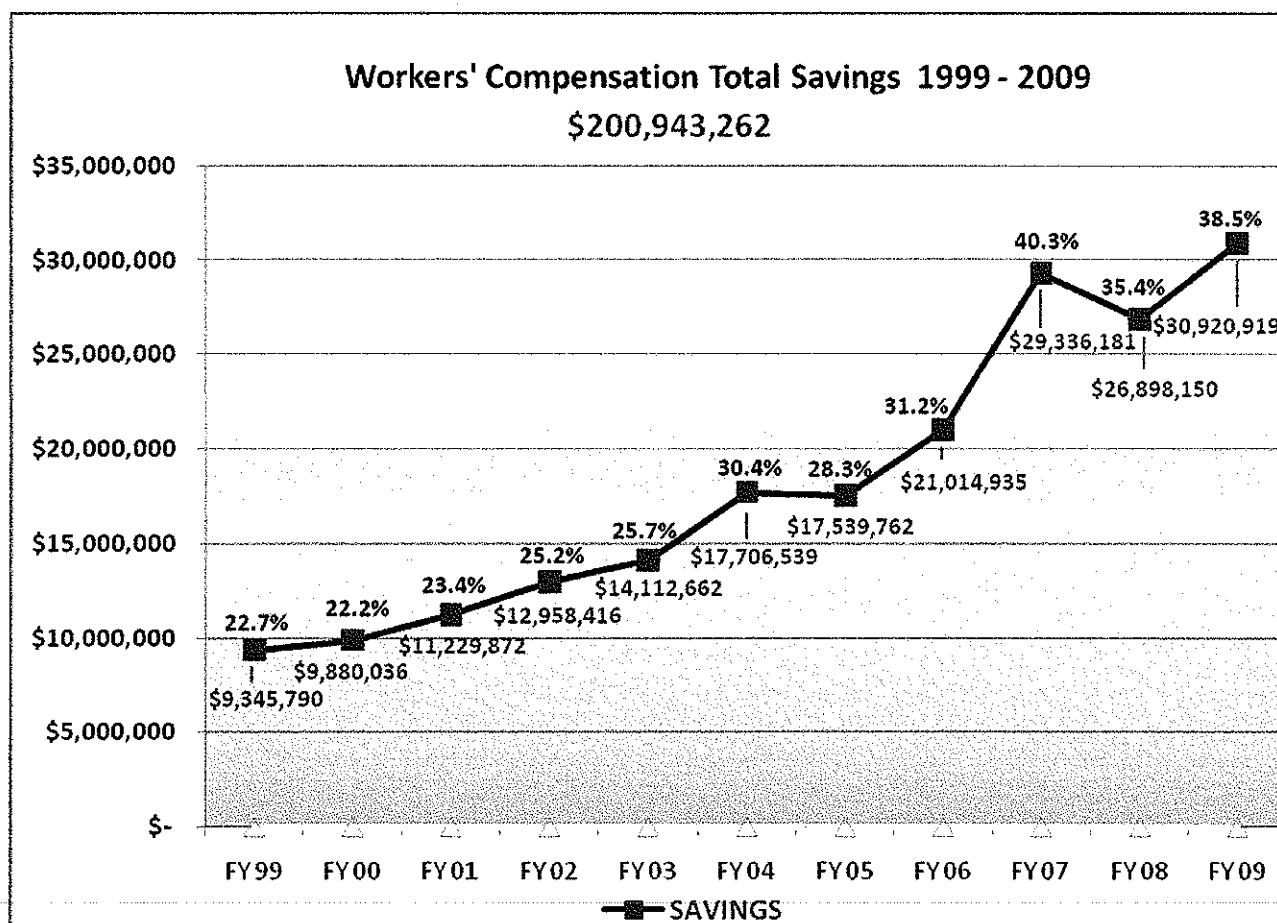
Managed Care Innovations LLC (MCI) was formed by Dr. Robert Cone and Mr. J. Monty McFadden in 1996. As the founding Principals of MCI, both Monty and Bobby bring a wide variety of experience to assist the Office of the Insurance Commissioner (OIC) in recommending program design and creating a Request For Proposal (RFP) to administer the West Virginia Workers' Compensation Program. Bobby's experience includes teaching economics and finance at the University of Richmond which was followed by five years serving as an economist for the Commonwealth of Virginia's Insurance Department where he was responsible for developing prior approval rates for workers' compensation and other lines of insurance as well as the recodification of the Virginia Insurance Title with focus on the financial and investment regulation of insurers and self-insurers. He was a primary contributor to the NAIC's pioneering efforts on the treatment of investment income in the insurance rate approval process. This was followed by ten years of service with Anthem Blue Cross Blue Shield of Virginia where he directed the entrance of Anthem into the property and casualty market through the acquisition of a TPA (Trigon Administrators). Monty McFadden's experience started with the Ohio Industrial Commission as a Hearing Officer which was followed by thirteen years with Gates McDonald and Company (a Nationwide Insurance Subsidiary) as a Branch Claims Manager and Marketing Manager. He joined Trigon Administrators and was responsible for marketing, account management and loss control services. Both operated in this capacity for approximately ten years before starting Managed Care Innovations in 1996.

MCI was formed and evolved into serving a new niche in the property and casualty self-insured market, designing and managing large self-insured programs. This opportunity evolved as a direct result of the experience gained in managing a large regional TPA which through multiple offices covered Virginia, Maryland, North Carolina, South Carolina and Michigan as well as supported national and regional insurance companies.

The market niche developed by MCI, *Total Program Management*, came about from the experience and understanding gained from managing a large TPA. In essence, the total program management concept requires a focus on all services required to manage a claim, not just the TPA claims administration services. Traditionally, the TPA assumes responsibility for this management function. The MCI management team's experience shows a TPA will focus on its own specific needs, frequently at the cost of the rest of the program. By becoming myopically focused on the TPA claims service functions to assure its own financial optimization, the remainder of the program is likely to suffer resulting in inferior financial and service performance for the client. The overriding objective must be to minimize the client's (West Virginia's) total program cost. However, the TPA is only a single cost component in the total cost equation. Minimizing cost may involve a reallocation of resources within the total team of service providers, a result that may not maximize the revenues collected by the TPA. The accomplishment of this goal is likely to require a planning horizon longer than what one would find for the individual TPA and a general contractor that has a clear view on how to achieve the

long run goals and needs of the State. This reality must be considered in the selection of an administrative team to service the OIC program.

The MCI experience relevant to OIC and the State is the management of the Commonwealth of Virginia's (COV) workers' compensation program since July 1998 and is presently in year three of its third five-year contract with the COV. As the contract holder with the COV, MCI designed a complete workers' compensation program which includes the TPA services, the PPO and medical bill adjudication process, the requirements and procedures for the claims and claims related processes, the medical and vocational management components, the return to work program and the loss control program. There are numerous other components that fill significant needs such as surveillance, IMEs, PBM and others. All of these vendors (team partners) are subcontractors to MCI. While the program exists under the MCI name, the MCI task is to assure that all of the team partners operate in a unified, coordinated and consistent manner to meet our client's needs. The process is quite involved with MCI's Account Director being located on site in the dedicated office. The program has been highly successful in terms of savings, customer service and evolution. The chart below tracks the financial performance of the Commonwealth's program. MCI has a full and complete understanding of the components of a successful program as well as the skills and knowledge required to manage the program.



Since 1999, the Commonwealth's consulting actuary has estimated that the MCI program has reduced the Commonwealth's cash outflow by over \$200,000,000. These savings are a result of

MANAGED CARE INNOVATIONS . . . . . TOTAL PROGRAM MANAGEMENT

close management of the MCI team members by MCI, the detailed definition of procedures and adherence to these procedures, constant monitoring of the individual team member's performance and finally, and most importantly, a full cooperative partnership between MCI and The Commonwealth's Workers' Compensation Services Department.

The COV workers' compensation program covers approximately 120,000 employees. The Program's success over the years has required MCI to manage eleven subcontractors to assure the delivery of a superior and seamless service supporting the workers' compensation program. The MCI knowledge and experience gained over the years will provide to the OIC a quality risk financing program which will provide fair and equitable treatment to the State's employees, a high level of service to the State's Agencies, and a program that will be provided with cost efficiencies.

In addition to the COV program, MCI provides a similar program to the Montgomery County Self-Insurance Program in Maryland which covers all lines of property, casualty, and liability (including workers' compensation.) This program covers sixteen public entities and approximately 50,000 lives for workers' compensation.

MCI also worked in an advisory capacity with Mr. J. S. Thompson, Risk Manager for the State of Louisiana in designing the States' total self-insured property, casualty and liability programs' transition from self-administration to an outsourced program. MCI also worked with Mr. Bill Duchac, Office of Risk Management for the State of Vermont in assessing and making recommendations for their loss prevention programs and their managed care services supporting the Vermont's workers' compensation program.

#### **Proposed Staffing Plan**

The following individuals will be supporting the OIC program.

<b><u>Principals</u></b>	Dr. Robert T. C. Cone - Project Lead Mr. J. Monty McFadden Mr. John C. Sullivan CSP, CFPS – Loss Control
<b><u>Manager</u></b>	Ms. Pearl Monroe - Account Director
<b><u>Support</u></b>	Ms. Mary Lambert – Project and Financial Analyst

Resumes of the aforementioned five individuals that identify professional and industry certifications and degrees applicable to this project whose resumes are in Attachment B: Mandatory Specification Checklist (2.5.1),

**NOTE** - Managed Care Innovations (MCI) provides the following documentation on experience in designing and managing public entity programs. Regarding the supporting services of actuarial service and insurance brokerage, *MCI will rely on the services of the Office of the Insurance Commissioner's consulting actuary and an assumed relationship that the State has with an insurance broker.* The terms of the RFP effectively prevent MCI from subcontracting these services.

***Descriptions of past projects completed entailing the location of the project, project manager name and contact information, type of project, and what the project goals and objectives where and how they were met.***

### **Managed Care Innovations**

#### **Project 1 – Outsourcing of a self administered workers' compensation program for the Commonwealth of Virginia**

**Client Type:** State Government and Universities

**Client Name:** Commonwealth of Virginia, Department of General Services, Department of Risk Management, Workers' Compensation Program. The Program was subsequently moved to Administration under the Department of Human Resource Management.

#### ***Relevance:***

The Commonwealth of Virginia (COV) outsourced the State's Workers' Compensation Program in 1998. The program was administered by the Department of General Services with a focus on the administrative cost. At that time, the COV employed approximately 120,000 employees and self administered the self insured program for five years.

The primary problems that led to the outsourcing included:

- Inability to compete with private industry. Salaries were not competitive. It was difficult at best to hire and retain quality employees.
- The State was captive to restricted technology processing claims on a proprietary system.
- The focus was on reducing administrative expense, not loss cost.
- Increasing medical and indemnity cost.

Following a competitive bid selection process, Managed Care Innovations (MCI) was selected. The emphasis of the MCI proposal was on reducing the *Total Program Cost*. MCI proposed the service as the General Contractor. MCI was not the low price bidder.

The MCI proposal focused on the *Total Program Management*, not just the cost of administering the claims. The MCI proposal addressed the procedures and quality of *ALL* services required to effectively manage a claim including those services hidden in the files as allocated charges. The proposal implemented quality assurance measures to evaluate the total cost of loss. MCI guaranteed a reduction in loss cost subject to three conditions: the State would require the prompt filing of accidents within ten days, State agencies would develop a program for loss prevention that could be measured, and the State would develop and require a Return to Work policy in each agency. This was accomplished through a Governor's Executive Order (subsequently renewed three times).

To implement and promote the Program to the agencies a series of "roadshows" were scheduled around the state. Participation included COV management, MCI and key Team Partners. The sessions were approximately five hours in the initial meetings. In subsequent years, MCI modified the program format to two levels of education and communication; one session was for agency personnel new to their position; the second was an advanced session for experienced personnel.

MCI participates in two events organized by the COV. The Office of Workers' Compensation annually sponsors "Safety Day" which is an opportunity to bring all State Agency Safety Officers into one location. Recognition is given and a key note speaker provides the opening of the event. Training sessions are scheduled for a variety of topics. Loss Control Innovations is a major participant in planning and presenting the event. The second annual training opportunity is the statewide HR Conference. Usually conducted in the fall, agency Human Resource personnel from all agencies attend for policy updates and training. The MCI Team provides training for a number of sessions on claims, loss control and return to work opportunities. Because of the high interest by State personnel in workers' compensation, the Office of Workers' Compensation for the last several years has added an extra day onto the conference exclusively for workers' compensation training. To accommodate the varying levels of HR personnel attending we have branded the session as Workers' Comp 101 and Workers Comp 102 for the advanced personnel.

**CLAIMS** - The greatest challenge was creating a new culture. A criterion of outsourcing was that the MCI Program would hire the existing staff. This was misinterpreted by the staff as guaranteed jobs and business as usual. The role of the MCI Team Members was to provide the necessary resources, training and support to assist the transitioned employees in meeting the MCI Program standards. It is important to note that the transition required the development of a new culture for the Program. A new level of individual and corporate accountability was introduced and measured. Emphasis was placed on compliance with the Program's procedures, customer responsiveness and individual performance and results. MCI instituted along with the Commonwealth a process for self auditing external quality assurance reviews.

Of particular significance were the development of very defined and specific procedures and the training of the procedures. Once staff had a clear understanding of procedures and knew they would be held accountable to meet the procedure requirements progress was recognized.

An important advancement in the MCI Program was the addition of a dedicated MCI account director. This position has authority for decision making regarding compliance issues, procedures, operational issues and serves as the individual with primary responsibility to interact with the State's contract administrator. The position is responsible for the monthly quality assurance meetings with individual Team Partners. These meetings serve as an opportunity to recognize accomplishments, review activity and performance, identify opportunities for improvement, and review the status of projects.

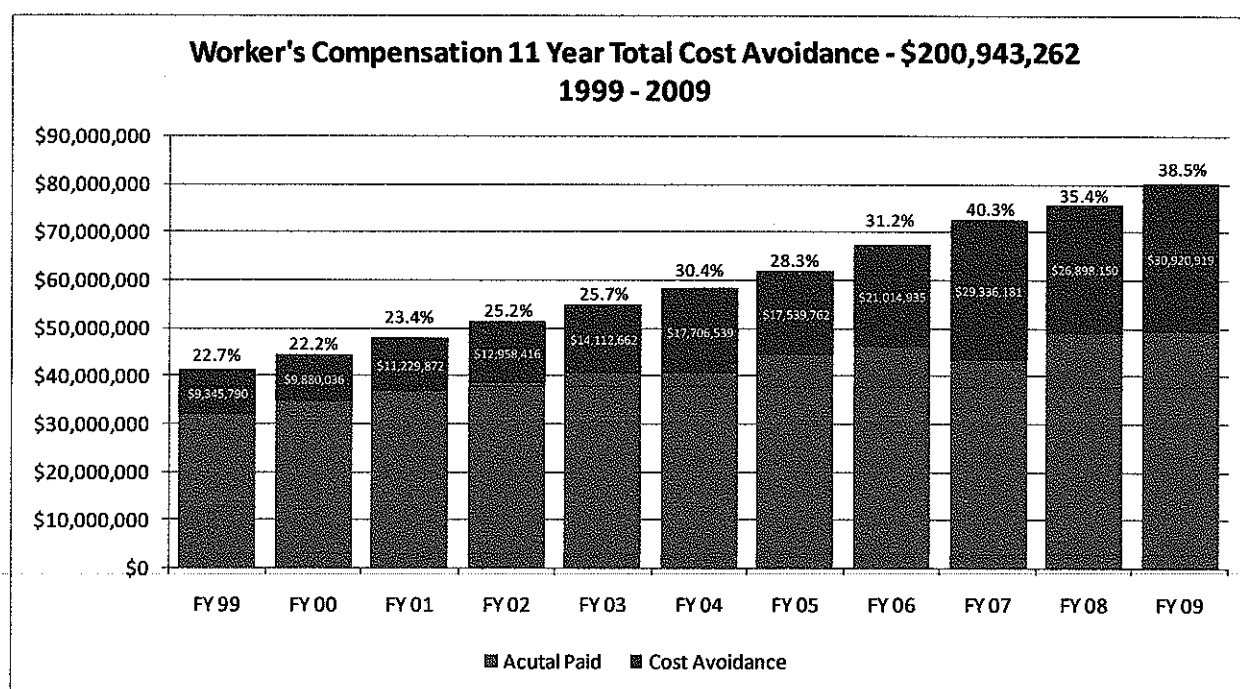
**LOSS PREVENTION** – The COV included loss prevention as a part of the initial and subsequent RFPs. The COV provides this as a service to assist agencies but is not responsible for the policies and procedures of the agencies. The core program includes:

- **Snapshot surveys** - A review of workers' compensation loss control programs and activity at an agency facility with recommendations for improvement. The emphasis is on compliance with VA Occupational Safety and Health regulations as well as implementation of "best practices" including self-inspection routines, safety committees, employee safety training, return-to-work plans, injury investigations and injury trend analysis and vehicle fleet safety.
- **Incident investigations** – The LCI staff will assist agency personnel with incident investigations upon request or when an injury involves multiple workers. Other criteria can also generate a request for assistance from the Office of Workers' Compensation for an incident investigation.

- **Claims trend analysis** – Periodically, LCI consultants review the COV workers' compensation claims activity for a specific time frame, usually three fiscal years. The goal is to analyze the activity for identifiable trends which can then be used as a basis for developing new loss control strategies and training to address high-frequency and/or high-severity claims trends.
- **Safety/loss control consulting** – Agencies can request the assistance of a loss control consultant to help solve a safety problem, evaluate an exposure or hazard and recommend controls or to develop a plan to address hazards presented by a new exposure or activity.
- **Scheduled loss control training** – The consultants deliver safety training classes throughout the year in strategic geographic locations to reduce travel on the part of students. The classes cover a wide range of topics including 10 and 30-hour OSHA Outreach training, VOSH/OSHA topics, safety strategies for the most frequent and expensive types of injuries, and safety officer skills and techniques.
- **Safety training by request** – LCI consultants will assist state agencies in developing new or modified safety training programs upon request. Some agencies do not have the resources to develop new training programs and the loss control consultants will assist them in identifying and evaluating the training required and then develop training aids and supporting materials to deliver in a train-the-trainer environment.

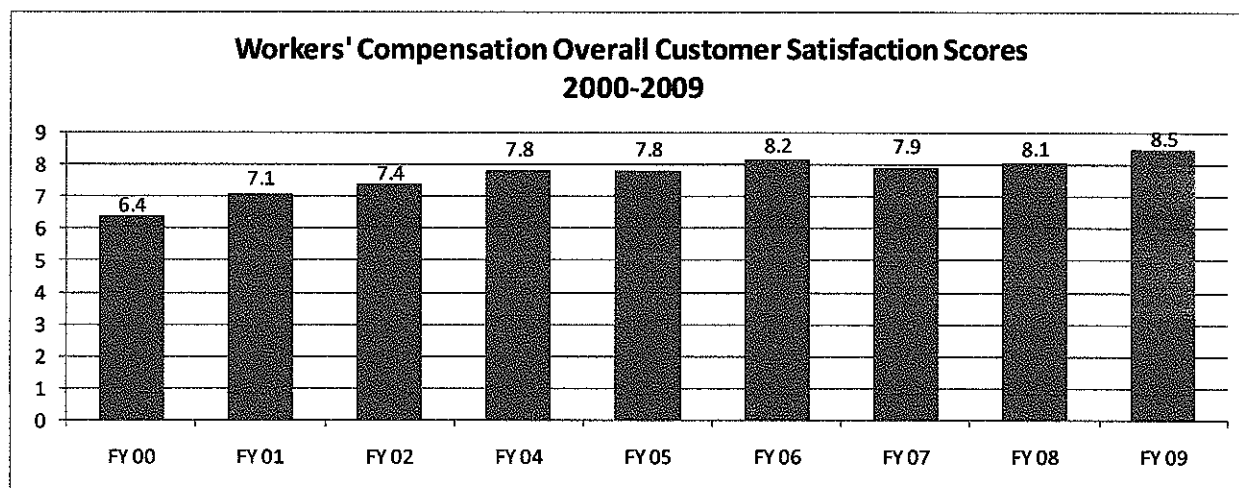
A library of LCI customized articles to assist agency safety representatives with readily accessible information is posted on the website at [www.COVWC.com](http://www.COVWC.com); click on "Loss Control" <http://www.covwc.com/lcarticles/index.php>.

**Financial Savings** - Measured on a cash flow basis using the model developed by the COV's consulting actuary, William M. Mercer.



**Customer Satisfaction Survey** - Annually the COV conducts a Customer Satisfaction Survey. The survey is electronically distributed to over 500 State Agency workers' compensation representatives. The number of surveys returned usually exceeds 70%. The survey is an important measure of perception and performance and a significant tool for MCI's continuous improvement process. The survey instrument measures the frequency of contact, timeliness of agency communication, accuracy of information, explanations, the courtesy of the MCI representative, timeliness of payments, and overall satisfaction.

Results are analyzed by category and reviewed with the MCI Team Partners and client to identify opportunities to for improvement and shared with staff to emphasize the areas where customer satisfaction is good can be improved. Action items are identified and implemented.



The following presents the five year frequency and incurred values of claims from FY03 through FY 07 as well as the annual percent reductions in average claims cost for the Commonwealth. Over the five year period, average claims cost decreased 40%.

**Frequency of injuries**

**Incurred Cost per claim**

		<b><u>Costs</u></b>	<b><u>Cost Per Claim</u></b>	<b><u>Decrease</u></b>
FY 2003	10,255	FY 2003	\$3,921 /claim	
FY 2004	10,582	FY 2004	\$3,194 /claim	18.5%
FY 2005	9,792	FY 2005	\$2,809 /claim	12.1%
FY 2006	10,429	FY 2006	\$2,724 /claim	3.0%
FY 2007	9,740	FY 2007	\$2,352 /claim	13.7%

**Incentive / penalty provision:**

MCI has an incentive/penalty clause with the program. The plan is based on the actual dollars saved and the customer satisfaction survey. The savings is formula based and as determined by the State' actuary. The customer survey is sent to agency workers' compensation representatives only and is not a survey of injured workers. The program has achieved the maximum incentive every year since inception. Details of the incentive plan are available upon request.



**Lines of Coverage Serviced:** workers' compensation / loss prevention

**TPA – Frank Gates Service Company (Avizent Risk Services)**

**Prime contractor or subcontractor:**

Managed Care Innovations as the General Contractor assembled a Team of subcontractors that included : The TPA, medical bill adjudication including the PPO, field and vocational management services, surveillance, a pharmacy network, IME/FCE services, diagnostic services, loss prevention, claims and payroll audits, transportation and translation services.

Subsequent contract awards have added the services of a project manager to provide training on the State's distance learning system. MCI writes the training program and provides the resource to provide the voice over for the programs and a liaison between the workers' compensation program and the State's disability retirement program to assure proper integration.

**Project Dates:**

MCI's first contract began FY 1998. MCI is now in its third five year contract.

**Work Performed:**

MCI performs General Contract Management and provides the Account Director for the program. In the past twelve years, MCI has operated under three contracts. In that time, MCI has had to implement non compliance and replacement of a subcontractor on three occasions. In each case an action plan for improvement and a cure period was implemented to meet contract compliance. When the subcontractor could not meet required performance standards, MCI had to replace the vendor with a service provider that could meet the standards and the cost had to be neutral.

**Current Contract COV Team Partners:**

Avizent Risk Services (formerly Frank Gates Service Company):

For the COV, the constant has been the Frank Gates Service Company, subsequently acquired by the venture capital group, KRG. The company operates as Avizent. Steady performance has been recognized but recent activity has demonstrated an extremely high turnover at the senior management level. In a period of three years the company has had 3 CEOs, 3 CFO's, 3 IT managers, and most recently a change in the Executive VP of National Client Services.

Concurrently with these changes we have seen an inability to manage IT projects, specifically the move to an improved imaged environment which was proposed to be in place by January 2008 and is yet to be installed. This failure has created unnecessary work being placed on the claim staff.

M Hayes and Associates: Medical and Vocation Rehabilitation Services

Sedgwick CMS: Medical Bill adjudication and PPO and Prevailing Community Rate support. Sedgwick CMS replaced CorVel Corporation as the provider of Medical Bill Adjudication and PPO Network provider in the contract effective 7/1/08. CorVel was not capable of defending reductions to out of network providers. The savings rate increased in the first year of service from approximately 19.5% to 38% using the Sedgwick CMS program.

**Advantage Surveillance:** Advantage has provided surveillance and field investigation services to the MCI/COV program for all three contracts.

**First Script:** Pharmacy Benefit Management Services

**MedEval** – a regional IME/FCE service provider

**MedFocus:** Diagnostic services

**PMSI:** Transportation, Home Health Care, and Translation services

**Central Virginia Audit Services:** Payroll and classification services

**Loss Control Innovations:** Loss Control and Safety Services

**Reference:**

Kristie McClaren  
Director, Workers' Compensation Services  
Commonwealth of Virginia  
101 N. 14th Street, 6th Floor  
Richmond, VA 23219  
Phone: 804- 786-0362  
Email: [kristie.mcclaren@dhrm.virginia.gov](mailto:kristie.mcclaren@dhrm.virginia.gov)

**Project 2**  
**County Self-Insurance Program**

**Montgomery**

**Client Type:** County Managed (two) Municipal Pools: 1) workers' compensation and 2) liability/property; Sixteen local municipalities make up the two self insured pools.

**Lines of Coverage Serviced:**

Workers' compensation, liability and property and all ancillary support services

**Managed Care Innovations – General Contractor**

*Subcontractors to MCI*

- First Script Rx – Pharmacy network and durable medical equipment (DME)
- Progressive Medical – Durable medical equipment (DME)
- Gallagher Bassett Services – TPA and medical bill adjudication
- M Hayes & Associates – TCM and bill audit services
- OneNet PPO Network – OCCUNET, an Occupational Preferred Provider Network
- Restore Rehabilitation – Field and medical vocational rehabilitation services
- Eckman/Freeman – Field and medical vocational rehabilitation services (out of area)
- Med Eval and CT Medical – Independent medical exams and functional capacity exams
- Expert Medical Opinion - Diagnostic evaluations
- Advantage Surveillance, Titan Investigations, Detect Inc. – surveillance
- Cotter, Neimeier & Lynch – Property claim appraisal service
- PDA - Appraisals for liability
- Loss Control Innovations

**Project Dates:**

2007 – present; procurement - seven year contract

**Work Performed:**

Managed Care Innovations was awarded the contract which was effective July 1, 2007. The program was awarded to CorVel in 2005. CorVel's contract was cancelled after 24 months. An extra challenge of the transition was that the program would now experience three different TPAs in four years. A significant issue surrounded the integrity and availability of the data from CorVel, the former TPA, and a demoralized staff that transitioned from another TPA two years earlier. The emotional impact to the employee can be serious involving benefits, retirement plans, vacation time, learning new systems, and change by and of itself. As the transition period was less than two months from the date of the contract award, an interim office was established in temporary quarters. In coordination with risk management, the program priorities were developed.

A communication plan to the new staff employees and MCSIP Program Members was established. MCI met with Program Members to communicate the changes. Additionally, MCI owns and designed and manages the Program website for support of the Program Member use ([www.MCSIP.org](http://www.MCSIP.org)).

The previous program did not have member procedures. The significance of this is the different unions and contracts in place regarding employee benefits. Many agreements have provisions for continued compensation for participation in PPO networks and modified duty. MCI's account manager worked with the individual Program Members to capture the needed information to meet their unique requirements.

The account director also worked with Gallagher Bassett to establish and train on the MCI program procedures.

The account director assumed a more active role than anticipated due to the inexperience of the claim manager. Against MCI's advice the TPA placed a new, inexperienced manager on the program, from another jurisdiction with only workers' compensation experience (no liability or property). After four months, MCI issued a non compliance letter to the TPA. The program is now operating with its third TPA manager who has the experience and ability to manage the claim staff and MCI has lifted the compliance letter.

MCI and risk management have implemented a strategic planning initiative. A facilitator was hired to assist with the process. As a result a Program Mission Statement was developed, the branding of the program is evolving with a new logo and image, and seven strategic initiatives were developed to improve service and reduce cost.

#### **Actual/Projected Cost Savings to the Client:**

##### **FY 2009 Savings**

Total program savings were \$9,940,534. The top drivers were \$7,215,456 with Maryland Fee Schedule, \$1,365,526 with TCM, and \$828,545 with One Net PPO.

First Script overall savings when compared to 2006-2007 improved by \$83,733.20 or 4.7%. Total program savings were \$315,980.39. First Script's corporate objective is a 75% penetration rate. MCSIP's penetration rate of 90% is one of the highest for First Script. MCI continues to look for additional savings and encourage mail order usage. MCI has also established procedures for First Script to re-price items that were filled outside of the network.

There were 21,509 medical encounters processed by One Net, 1,563 were related to hospital facilities. Original hospital charges of \$3,175,734 were reduced to \$2,782,957 for savings of \$392,776 or 12%.

Coverage Line	Client Claim Count	Client Total Incurred	Avg CPC Client	GB Claim Count	GB Total Incurred	Avg Cost Per Claim for GB
Auto Liability	1,020	1,335,173.06	1,308.99	122,467	409,915,316.13	3,347.15
Auto Physical Damage	1,029	1,128,100.08	1,096.31	29,085	68,419,619.31	2,352.40
General Liability	809	716,033.70	885.08	107,859	394,488,778.99	3,657.45
Property	153	693,137.31	4,530.31	14,677	170,908,561.03	11,644.65
WC-Indemnity	1,398	16,026,069.97	11,463.57	120,124	1,883,716,486.40	15,681.43
WC-Medical	2,547	828,228.77	325.18	235,324	143,235,995.69	608.68

**Reference:**

Terry Fleming  
Chief, Division of Risk Management  
Montgomery County Government  
Department of Finance  
101 Monroe Street  
Rockville, MD 20850  
Phone: 240-777-8911  
Email: [terry.fleming@montgomerycountymd.gov](mailto:terry.fleming@montgomerycountymd.gov)

### **Loss Control Innovations (LCI)**

Loss Control Innovations was established in 2001 as a division of Managed Care Innovations (MCI). LCI is a loss prevention consulting and training firm that provides strategic solutions to organizations by providing the following services:

1. Assessment and benchmarking of loss prevention programs;
2. Development and implementation of loss prevention and safety training programs designed to address issues identified in the assessment and benchmarking phase;
3. Creation of long-term plans and goals to promote optimal loss prevention strategies;
4. Ongoing management consulting to assure recommended program operates to meet the needs of the client or adapts to changes in the organization;
5. Traditional site safety surveys, OSHA program reviews, employee safety training, supervisor safety leadership coaching, loss prevention consulting.

### **Project 1 – Commonwealth of Virginia**

**Relevance:** The COV project involves providing loss prevention consulting and training for about 120,000 state employees.

**Lines of Coverage Serviced:** Workers' compensation

**Subcontractor:** – Loss Prevention Services

**Project Dates:** 2001 – current (contract still in force)

#### **Work Performed:**

- LCI currently provides loss prevention consulting and training services for the Commonwealth of Virginia through the Department of Human Resources Management for a workforce of almost 100,000 employees. Two consultants are dedicated full time to the project and the LCI Managing Partner devotes 20% of his time to the COV project.
- LCI provides agency snapshot surveys which involve physical site surveys to identify hazards, evaluate controls and make recommendations for improvement.
- LCI consultants also develop and deliver monthly instructor-led classroom training in strategic locations for state employees and they develop several new training classes annually. The staff also develops loss prevention content for use in computer based training programs and the consultants routinely respond to specific requests from state agencies for specialized safety training related to their operations and unique exposures.
- The consultants are all authorized OSHA Outreach Instructors and deliver two 10-hour and one 30-hour OSHA General Industry workshops each year. LCI consultants perform incident investigations when requested for serious injuries or fatalities and make recommendations to prevent any recurrence.
- LCI consultants communicate regularly with state agency personnel on matters related to the broad practice of safety, VA Occupational Safety and Health requirements, and solutions for safety-related problems.

- The consultants also do claims analysis for each agency location visited and for the entire program on a quarterly basis. The claims analysis also serves as a source of information used to determine future training class topics and which agencies will be chosen for snapshot surveys.

**Actual/Projected Cost Savings to this Client:**

LCI is a partner in the Total Program Management project that MCI has in place for the Commonwealth of Virginia and as such is partly responsible for the significant cost savings experienced by that client.

**Reference:**

Ms. Kristie McClaren  
Director, Office of Workers' Compensation  
Commonwealth of Virginia  
Department of Human Resource Management  
Office of Workers' Compensation  
101 N. 14th Street  
Richmond, Virginia 23219  
Phone: 804-786-0362

**Project 2 – Montgomery County Government (Montgomery County, MD)**

**Relevance:** LCI was engaged to provide loss prevention consultative services for a specific public safety agency that had poor workers' compensation claims experience. The goal was to reduce the frequency and severity of workers' compensation claims for Fire & Rescue Services personnel in the County. It demonstrates LCI's ability to address unique public sector loss prevention challenges.

**Lines of Coverage Serviced:** Workers' compensation

**Subcontractor**

**Project Dates:** March 2005 through March 2008

**Work Performed:** LCI provided loss prevention consulting and training specific to Montgomery County (MD) Fire & Rescue Services (MCFRS). A consultant performed a comprehensive evaluation and analysis of existing safety programs and worker injury history, developed a long-range loss prevention plan, prepared and delivered a series of loss prevention and safety leadership training workshops for 240 MCFRS management personnel and helped the County realize a decrease in worker injuries and associated costs. On March 20, 2008 LCI, MCFRS and the Montgomery County Risk Management Division were recognized with a *Partnership Award* at the Montgomery Best Awards ceremony for the programs and activities designed to reduce the number and associated cost of employee injury claims in Fire and Rescue Services.

**Actual/Projected Cost Savings to this Client:** As a result of these efforts, for fiscal year 2006, MCFRS experienced a reduction of 13.7 percent in the number of injuries reported and more significantly, a reduction in overall costs of 20 percent associated with the most severe injuries.

**Reference:**

Terry Fleming, Director  
Montgomery County  
Division of Risk Management  
101 Monroe Street  
Rockville, Maryland 20850  
Phone: 240- 777-8911



### **Additional Considerations in Creating the OIC Workers' Compensation Program**

In the creation of the RFP for Phase II, MCI will set a design objective to assure that the best possible program is provided by the OIC to the State agencies but not constrain the creativity of the Proposers. This is achieved by setting overall program expectations (such as performance standards) while allowing the responder the opportunity to determine the best option for meeting the described service requirements. In recent years, mergers, acquisitions and contractual relationships among the business firms serving the total claims administration area have accelerated and the changing conditions have altered the economic behavior of the participating firm in a manner that is not always beneficial to the customer. *Disclosure in the Proposal is critical* as the OIC must be made aware of the potential consequences of a service provider bundling products provided by subsidiaries or close contract situations.

Following this section is a September 21, 2010 letter to Mr. Jamie Fohl, Manager, Division of Risk Management for the State of Tennessee in response to an open ended question Mr. Fohl presented at the fall 2010 STRIMA (State Risk and Insurance Management Association) meetings. The question asked the consequences of TPA's following a practice of bundling the ancillary services that previously were provided independently of the TPA. MCI's response to the question identifies, among other things, the economic biases resulting from TPA's owning / controlling ancillary service providers. The letter also addresses the adverse consequences on the total workers' compensation program cost. Also attached are the most recent issue of *Business Insurance* which features an article on TPAs transparency and the practice of revenue sharing and fees from subcontractors.

Opportunities exist in designing an RFP to share program operating risk (as opposed to the risk associated with actual claims cost). To this end, the OIC is likely to receive a more cost effective program which will benefit both the State and the service provider. This entails the RFP being able to accommodate flexibility in program design while requiring adherence to standards that makes comparison and selection an objective process. Proposers at the Phase II level are making a major commitment to the State, a commitment that will cover multiple years. This condition generates risk for both the State and the successful proposer. The RFP should include features designed to minimize the risk to both parties.

MCI's experience in providing services under these conditions allows MCI to place significant emphasis on the design of the RFP to reduce uncertainty and increase the probability of successful placement of the contract for administrative claims service. To the degree that contract risk can be mitigated through reasonable risk sharing arrangements, there will be the opportunity to reduce administrative cost without degrading service. Risk translates to cost, a cost that can be partially reduced through RFP design.

Additionally, the longer the contract time period, the greater the potential for technological erosion resulting from the contractor's failure to upgrade with new innovations. It is difficult to discern a contractor's appetite to make continued investment in the program's infrastructure without the promise of increased revenues from existing contractors.

It is important to recognize that OIC has a unique opportunity. In most cases, a proposer must bid on an existing program requiring the assumption of thousands of open claims in an environment that has been formed by the traditions of the past. This RFP will provide an opportunity to participate in a new design that can accommodate the latest in knowledge, experience and technology. The constraints of the past can be moderated if not eliminated.

MCI was given a similar opportunity with the COV's workers' compensation program in 2007. After responding to the RFP issued by the COV and selected as the successful bidder pending final negotiation, MCI was given the opportunity to redesign the program that had been requested in the RFP and awarded to MCI. Given latitude by the COV, MCI was permitted to direct a major redesign of the workers' compensation program if the results would continue to enhance customer service, expand cost savings and improve operating efficiencies. The redesign included new technologies and changes based on the prior ten years of experience. The changes did increase efficiency and reduced cost, resulting in an improvement in a program that was already exceeding standards.

Managed Care Innovations success with the COV, as it pertains to assisting OIC in creating the workers' compensation RFP, included are the following activities:

1. Development and use of a detailed cost plus pricing model for establishing payment for administrative services.
2. Introduction of loss control services designed to lever the existing COV loss prevention personnel assets.
3. Development of a staffing adjustment model which eliminated some of the cost of risk normally included in a price for service.
4. Development of an incentive / penalty model based on bottom line financial performance and customer satisfaction surveys.
5. Development of a detailed procedure document, different from client service instructions, to improve consistency, quality and measurement of the work product.
6. Management oversight of all MCI Team partners.
7. Development of a two-tiered web based claim reporting system.
8. Development of programs to enhance the COV agencies' understanding and requirements of the MCI workers' compensation program.
9. Promotion of system self-management programs for the claims staff.
10. Promotion and development of a document management system (the imaging process to go paperless) for the COV program.

This is a limited list of activities that MCI has managed for enhancing the COV program. MCI's goals and objectives are developed in conjunction with the COV and formal project management processes are used to assure completion and delivery. The RFP issued by OIC should set a similar cooperative environment.

In summary, MCI is pleased to have the opportunity to respond to this RFP. MCI is a tried and proven performer and is positioned to identify the correct workers' compensation program for the State of West Virginia and design a creative program that will benefit the State's employees as well as the State's taxpayer.

Following are the letter to Mr. Jamie Fowl State of Tennessee and the January 17, 2011 *Business Insurance* article entitle "TPA pay deals raise concern" referenced in this section.



September 21, 2011

Mr. Jamie Fohl  
 Manager  
 502 Deaderick Street  
 Nashville, Tennessee 37243

Re: Open Question presented at STRIMA

Dear Jamie:

Your open ended question requested information on the Bundling and Unbundling of the specialty services required to support the TPA in the proper management of workers' compensation claims. There, as one would suspect, is far more than what meets the eye. As you know, less than economically sound decisions can be made in either the bundled or unbundled services market. Without proper oversight, both can be equally bad. MCI believes the best opportunity to control the total program cost includes contractual agreements with the following specialty service providers:

- Claims Management Services (TPA)
- Medical Bill Adjudication
- Preferred Provider Organization
- Pharmacy Benefit Management Networks
- Specialty Networks (e.g. physical therapy)
- Medical Bill Audit Services
- Telephonic Case Management
- Field Medical Case Management
- Vocational Case Management
- Surveillance
- Independent Medical Exams
- Durable Medical Equipment
- Diagnostic Services
- Home healthcare
- Return to Work
- Loss Prevention

The following issues are related to the bundled verses unbundled specialty services:

1. Transparency of financial information
2. Ownership of the specialty service provider
3. Preferred TPA / Specialty Provider Relationships
4. Control of referrals to the specialty service provider
5. Communication linkages between the TPA and the specialty service providers

- a. *Ownership of the telephonic case management (TCM) specialty service provider by the TPA can lead to over use of the specialty service. The issue relates to the ability of the TPA to refer cases to the specialty service provider, essentially self-referral.*
- A TPA, under a fixed fee contract, is motivated to use the least amount of resources possible (i.e. claims adjusters). With the TPA's ability to select the claims referred to TCM as well as the duration of the referral, the TPA is in position to shift workload from the claims adjusters (an administrative cost) to the TCM subsidiary which is paid as an allocated file expense.
- A TPA's financial performance is enhanced by reducing its cost while the fixed fee revenues remain unchanged.
- The performance of the affiliate is enhanced by an increase in claim referrals, resulting in higher profits to the TPA.
- In summary, this model opens up the opportunity for income statement enhancements that are not transparent to the client, resulting in higher program cost.

## **2. Preferred TPA / Specialty Provider Relationships**

In this case, the TPA has entered into an exclusive arrangement with a specialty service provider. The relationship may include a repricing arrangement with a PBM Pharmacy Program. The PBM offers a price to the TPA and the TPA then adds a mark-up to the price. Note, such an arrangement does not involve a rebate from the PBM to the TPA. A variant on theme is for the PBM to make a lump sum payment to the TPA periodically, ostensibly to help the TPA cover its cost of operations. Regardless of its form, this type of transaction adds to the client's total program cost as the client is paying a duplicate cost. The lack of transparency allows the TPA to receive a subsidy on the program, a subsidy financed through the account's loss funds.

## **3. Control of referrals to the specialty service provider**

This situation can occur through the natural operation of the TPA, regardless of the ownership and contractual relations between the TPA and specialty service provider. The TPA is empowered to refer cases to the specialty service provider with intent to reduce the workload on its staff. To the degree this can be done (allowing higher caseloads), the TPA uses fewer resources, thereby enhancing its profitability. The client pays for this activity through higher allocated file charges and not receiving an offsetting reduction in administrative expenses. This process is not transparent to the client.

## **4. Communication linkages between the TPA and the specialty service providers**

The availability of total claim information to be shared, in both directions, between the TPA and specialty service provider is critical to the long run success of the program. The large national TPA's are reluctant to enter into such sharing arrangements and this reduces their opportunity to take advantage of local service providers who are familiar with the region and have a strong service commitment. The TPA's preference is to use their own electronic linkages with their proprietary providers, thereby enforcing their monopolistic approach through the exclusion of alternative service providers. This is unnecessary and inappropriate from the client's (State's) perspective. In today's world, technology is readily available for sharing information between

independent organizations. The incremental cost of supporting the day to day electronic interchanges is extremely low with virtually a zero marginal cost. Some TPA's refuse to consider a request from a client in the belief that the client will conclude there is no option. Such barriers are guaranteed to increase the cost of the client's program.

### Summary

An additional control element is required if all issues identified are to be addressed. However, the imperfections identified with the TPA owning or contracting with the specialty service provider cannot be adequately addressed to protect the client. The solution involves the following:

1. The Client must have a Claims Procedure Manual that covers all program components. This reduces the opportunity of the TPA to place higher profit self-interest in front of the Client's program.
2. There must be a process (audits) to assure compliance with the Procedures.
3. There must be proper training to all involved parties so that a common understanding is achieved with how the program operates.
4. As the TPA is the decision maker, carefully scrutiny is required to assure the TPA's decisions are in support of the objectives of the total program. To ignore this is to ignore that the TPA is a profit maximizing organization.
5. An organization experienced in overseeing the entire process is required (General Contractor). This service can be provided by the client or an independent organization. The audit function is critical to assure the procedures are followed explicitly. If this does not occur, then one should expect for suboptimal decisions to be made.
6. Consideration, perhaps as a pricing option, for a fixed fee for certain specialty services should be made. For example, the State could request an optional price quote where TCM, FCM and VCM would be provided on a fixed volume basis. The management obligation of a general contractor or the State would be to assure that the most productive cases are directed to these specialized resources.

I hope this information helps clarify what is complex issue. Feel free to give me a call if you would like to discuss the issues addressed in this letter.

Thanks for the great STRIMA Conference.

Sincerely:

Robert T. C. Cone

CC: J. Monty McFadden

# Business Insurance

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January 17, 2011

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ABOUT FUTURE / PAGE 4**

## In Brief

**AIG repays NY Fed,  
Treasury has 92% stake**

American International Group Inc. has repaid the Federal Reserve Bank of New York as part of its recapitalization plan resulting from its 2008 bailout by the federal government, the insurer said Friday. The plan included repaying a roughly \$21 billion credit line that AIG owed to the New York Fed. As part of the recapitalization plan also involving the AIG Credit Facility Trust and U.S. Treasury Department, AIG also said it had exchanged various forms of government support into common shares, resulting in the Treasury Department owning approximately 92% of AIG's common stock. Treasury now owns 1.66 billion shares of AIG and around \$20 billion of preferred equity interests in two AIG subsidiaries.

See IN BRIEF page 2

**SPOTLIGHT**  
UNDERSTANDING  
FINANCIAL  
RISK MANAGEMENT  
Lessons for traditional risk  
managers; political decision  
on China exports hits  
supply chains; insurers

## WORKERS COMPENSATION

# TPA pay deals raise concerns

*Buyers seek clarity  
on fee arrangements  
in vendor contracts*

By ROBERTO CENICEROS

Some risk managers want more transparency from their third-party administrators on the financial arrangements they have in place with vendors of workers compensation services.

Too often, TPAs don't break out details on the arrangements and some risk managers fear the lack of transparency results in higher costs for employers and conflicts of interest, several sources say.

Employers and brokers want to know how any undisclosed financial arrangements between claims administrators and the vendors affect employer costs and whether they undermine optimum claims outcomes or limit employers' ability to measure the effectiveness of workers comp claims services, several sources said.

Through contracts with claims administrators, the vendors ultimately

provide employers with services such as medical case management, utilization review, physical therapy, radiology, doctor networks, legal advice, investigation services as well as durable medical equipment and pharmaceutical prescription services, sources said.

Charges for the vendor's services typically appear as allocated expenses in a claim file. But those charges usually do not provide details about expenses being charged to a client nor do they reveal various revenue arrangements reached between the vendors and claims administrators—including third-party claims administrators and insurers' claims administration units, several sources said.

Several large TPAs said they eliminate any perceived conflict of interest by fully disclosing all revenue derived from vendors, especially after former New York Attorney General Eliot Spitzer's accusations in 2004 that brokers steered clients to maximize contingent commission payments.

See TPAs page 17

## LIABILITY & LITIGATION

# Mixed messages sent on global warming suits

*Court rejects one case,  
but accepts another*

By JOANNE WOJCIK

WASHINGTON—The U.S. Supreme Court's decision to reject one global warming nuisance suit after agreeing to take up another may provide clues to how the nation's highest court may rule on using the judicial system to resolve such issues, attorneys say.

See COVER page 17

## HEALTH CARE BENEFITS

# Aetna buys reinsurance coverage for group health

By JOANNE WOJCIK

ance business, freeing up some cash needed to meet risk-based

gored if the medical loss ratio on Aetna's fully insured commercial

## TPAs: Pay deals with workers comp vendors raise buyer concerns

CONTINUED FROM PAGE 1

But brokers, several employers, vendors and some claims administrator executives said undisclosed fees remain an issue.

"There is no question that there is a lot of undisclosed profits, markups and add-ons that the TPAs hide behind their vendor programs," said Fred O. Pachón, vp of risk management and insurance at Santa Barbara, Calif.-based Select Staffing Inc. "The typical hideouts are under subrogation, utilization review, medical case management, investigative services and bill reviews. I am not aware of any TPA that is transparent or willing enough to disclose all of those profit venues."

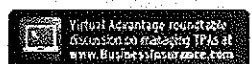
Claims administrators often fail to disclose precise details about financial arrangements, which leads to a conflict of interest, said Judie Tsanopoulos, director of workers comp and loss control for St. Joseph Health System in Orange, Calif.

"It's amazing to me how evasive TPAs can be about that," Ms. Tsanopoulos said.

Employers, for instance, may not know of all fee markups claims administrators charge for interfacing their technology with a vendor, said Paul Braun, managing director at Aon Risk Solutions in Los Angeles. Or they may not know of all the fees charged for the service of providing employers with access to the vendors.

Most buyers understand that claims administrators must earn revenue for such services, Mr. Braun said. But if fee markups are not transparent, it hampers employers' ability to determine whether they are paying a competitive price, he said.

Claims administrators also may earn revenue by obtaining undisclosed discounts from vendors in return for pushing volume business to those vendors and then not passing those discounts on to clients, said Pam Ferrandino, executive vp and casualty practice leader for Willis HRH in New



York, a unit of Willis Group Holdings P.L.C.

Such undisclosed arrangements may be misaligned with employer interests, Ms. Ferrandino said. It raises questions of whether a vendor is selected because of its claims-servicing capabilities or because of its discounted pricing.

"There are different ways (vendors and claims administrators) can approach how they are going to get compensated," said Ken Martino, president and CEO of the Atlanta-based TPA Broadspire Services Inc.

For example, a case management company may enter into a revenue-share agreement with a claims administrator by saying,

"You give me X amount of cases and I give you X dollars per case, or I will give you X dollars based on the spend as a return," he said.

Broadspire uses its own in-house case management services rather than contract them out so clients are not exposed to that risk, Mr. Martino said.

Increasingly, large, sophisticated employers want to measure claims outcomes, leading them to inquire about claims administrators' revenue transparency, Ms. Ferrandino said.

"We are starting to hear more of the larger risk management buyers wanting more transparency and disclosure from the carrier and the TPA, and it's one of those questions that when it is asked there is not a direct answer and response" Ms. Ferrandino said.

More requests for proposals submitted to Dublin, Ohio-based Avivent for its TPA services are seeking information about the company's revenue transparency, said Jeff Steiner, Avivent's executive vp of claims administration in Fayetteville, Ark.

"There is lots of discussion and lots of questions around what fees are being paid to which vendors," Mr. Steiner said. "We want people to understand what they are paying for and if there are any arrangements from a revenue-sharing perspective that those are fully disclosed."

But most recent RFPs seeking revenue disclosure are coming

from brokers on behalf of their clients, rather than directly from employers, Mr. Steiner said.

Some RFPs require that TPAs fully disclose all fees or break them out by services provided.

But there are additional questions asked during the RFP process when a proposed per-claim fee appears significantly lower than that offered by a competitor, Mr. Steiner said. Buyers see low per-claim fees as a red flag that a TPA may be earning revenue through other means, he said.

Efforts by TPAs to earn revenue through undisclosed fees is not driven by malfeasance or dishonesty, said Joe Paduda, a consultant and principal at Health Strategy Associates in Madison, Conn. But their business models are under pressure from employers demanding discounts in per-claim handling fees while the recession has caused a steep fall in claims.

But Dave North, CEO of Sedgwick Claims Management Service Inc. disagrees. The TPA industry has been improving its disclosure practices and the quality of its services, Mr. North said.

"Our overall position is that...we have to deliver a value proposition to customers that makes their total costs of risk a good value," Mr. North said.

There may be many vendors participating in a single claim, depending on a customer's program demands, and each vendor may have a different compensa-

tion arrangement with Sedgwick, Mr. North said.

But that does not suggest collusion and all financial arrangements are disclosed to the customer, he said.

Several risk managers said they agree with Mr. North that their TPA relationship is based on their total cost of risk rather than individual fees and they believe their TPA selects its vendors, in part, on their service quality.

"If they can handle a claim appropriately and close a claim timely and shut down the cash flow from that claim, I am not as concerned about how we get there as long as we are not being gouged in any way," said Cameron Shirley, director of claims management for Starwood Hotels & Resorts Worldwide Inc. in Phoenix.

But Starwood is among employers that unbundle several services rather than purchase them through a TPA. It unbundles nurse case management, bill review and its FPO networks.

Like other employers, Starwood unbundles for cost savings, a closer relationship with the vendors and improved claims outcomes, Mr. Shirley said. But it also does so to help avoid undisclosed fees.

"It does factor into those decisions, absolutely," Mr. Shirley said.

Several large claims administrators did not return calls seeking comment for this story.

## Comer: Mixed messages on global warming suits

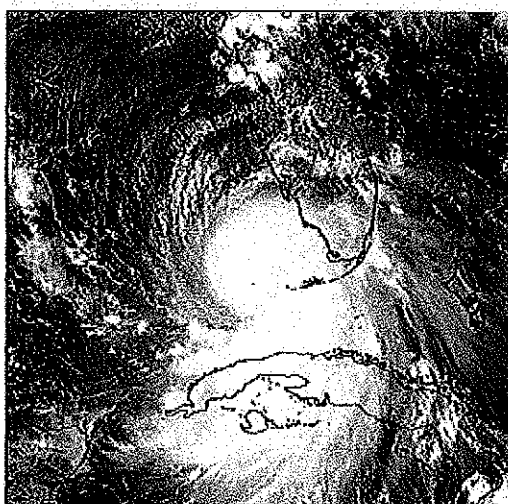
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The court last week rejected a petition to review *Nad Comer et al. vs. Murphy Oil USA et al.*, a case in which a group of Gulf Coast residents sought damages from more than 100 oil, coal and chemical companies for their alleged contributions to climate change, which the Mississippi plaintiffs alleged furthered property damage caused by Hurricane Katrina in 2005.

A federal judge dismissed *Comer*, saying it presented a political question that could not be decided by the courts. While the full 5th U.S. Circuit Court of Appeals agreed to review a three-judge

case in 2006, saying global warming liability requires a "balancing of environmental, foreign policy and national security interests" that is reserved for policymakers. However, the 2nd U.S. Circuit Court of Appeals rejected the conclusion, holding that while new laws eventually may pre-empt public nuisance claims, "until that comes to pass, federal courts will be empowered to appraise the equities of the suits alleging creation of a public nuisance" by greenhouse gases.

The Supreme Court, which agreed to hear *AEP* in December (B, Dec. 13, 2010), may be indicating that it doesn't think the



suits are political in nature and not well suited to be handled by the judicial branch," he said.

John Nevius, a partner at Anderson Kill & Olick P.C. in New York, suggested it is possible that "the Supreme Court didn't take up the *Comer* case because they liked the decision or because of its tangled procedural history. Also, memories are still fresh of at least two major environmental and political disasters in the Gulf."

"I would love for them to be signaling they're going to reverse *AEP*, but I don't think that was the only factor in their decision to reject *Comer*," said Megan Brown, a partner at Wiley Rein L.L.P. in Washington. "It's more a product of the procedural posture that *Comer* was up on and the tactical choices that the petitioners made."

*Comer* and *AEP* are two of three pivotal global warming nuisance

### **2.4.1 Goal/Objective 1:**

***To find an Enterprise Risk Management consultant to assist the OIC in formulating an optimal program for addressing West Virginia State Agency Workers' Compensation coverage options. The consultant will be able to fully identify and analyze the unique loss exposures associated with West Virginia State Agency Workers' Compensation. To assist the OIC in both examination and selection of the most appropriate risk management and risk financing techniques, including risk transfer with appropriate risk retention; purchasing group formation; as well as any others that may be of benefit to the State. Finally, to assist the OIC in selecting and implementing a monitoring program(s) for the selected risk management technique(s) and recommending how to revise the same as necessary.***

### **Vendor Response:**

The RFP clearly distinguishes the request for not just a Consultant but an Enterprise Risk Management Consultant to assist the OIC in the development of a program to address the State's needs. MCI employs Enterprise Risk Management (ERM) as both a consultant and Program Manager. We recognize ERM as a risk-based approach for the strategic design, implementation and management of a Project and/or Claims Program. The concept reinforces the methods and processes to align risks with program goals and objectives. We believe this practice improves communication and decision making, minimizes the unexpected, improves efficiency, and provides credibility to the organization.

The following diagram presents an overview of the risk sharing functions available to the State. Managed Care Innovations (MCI) believes that this framework includes the broad division of models that can be used to support West Virginia's workers' compensation program. It is unlikely that all of these options warrant extensive investigation. As part of the duties of the State's consultant, MCI believes that some of these options can be set aside without incurring costly analysis. The objective is to focus energy in the areas likely to be the most productive. The proposal that follows is divided into two components; first, an overview of the risk sharing models; and second a more detailed analysis of the paradigms included in the various risk financing models.

It is MCI's objectives to complete a review of these models as they would apply to West Virginia and then make a recommendation as to the form of the West Virginia risk financing model that should be used for the workers' compensation program. A general description of the risk financing models follows:

<b>RISK SHARING MODELS</b>		
<b>SELF-INSURED (SI)</b>	<b>COMBINATIONS OF SI AND I</b>	<b>FULLY INSURED (I)</b>
	<b>EXCESS INSURANCE</b>	<b>NON-DEDUCTIBLE</b>
	<b>CAPTIVE INSURER (own, rent)</b>	<b>DEDUCTABLE</b>
	<b>FRONTING INSURER</b>	<b>REINSURANCE</b>



## **Self-Insurance vs. Insurance**

The extreme options are self-explanatory. Under the Self-Insured Model (SI), all risk of loss is assumed by the State. At the opposite end of the continuum, the program is fully insured where an Insurer (I) is paid to assume the liability of the program. A wide range of combinations of SI and I fall in between the extremes. Attributes of the SI model include the ability to customize all components of the program to meet the needs of the State. Under a pure Insurance model, the amount of customization will be limited by the policies established by the insurer.

Determination of SI or I as the preferred model can be assisted with a statistical evaluation of the loss history. Assuming normal distributions of losses, the larger the number of employees, the greater the amount of risk diversification, a situation that argues for the State's workers' compensation program to include all State employees. An analysis of the loss data by a competent consultant can quantify the residual risk (that risk that cannot be adequately diversified through a closed risk pool) taken by the State if it should chose to self-insure the program. The formation of a recommendation for the Insurance vs. SI model will include a summary of the practices of other State government practices.

The primary function of an insurance company is to assume the risk that the State desires to avoid. The premium charged by the insurer will include estimated loss cost, allocated and unallocated expenses and profit (which may be negative dependent upon the investment income potential). While in today's market the investment income potential is small due to depressed interest rates, historically this has been a meaningful source of income to the insurance companies. As expected, this past earning potential has also been a major motive for an employer to shift to SI programs. MCI is not in the business of forecasting interest rates and investment yields, but return to some form of economic normalcy will result in higher investment yields and with this, greater benefits from the SI model. An additional reason for the SI approach is the ability to have a customized program for the State.

Should the State desire not to assume all of the risk of variability of losses, there are a variety of vehicles available for transferring the cost of risk to another party. The options listed in the Continuum are vehicles for shifting the cost of the uncertainty (risk) away from the State.

## **Excess Insurance**

Excess insurance for workers' compensation is generally available to support SI programs. The coverage can be designed to cover specific risk retention levels per claim to insure that losses per claim in excess of a stated amount will have the incremental loss cost assumed by the excess insurer. In addition, an excess insurance policy can be written to cover losses in the aggregate above an agreed upon amount. Excess policies are written to cover accidents within a plan or policy year, likely to be the fiscal year for the State. The markets for excess insurance can be quite volatile and during capital restricted times, the premiums can become expensive and it is possible for the insurer to simply refuse to write the coverage. The State's propensity to retain risk vs. pay to transfer risk will play a key role in determining if excess insurance is required in SI program.

### **Captive Insurer**

A Captive Insurer refers to an insurance company that is licensed under special provisions of a state's insurance code or in an off shore location such as Bermuda or Vermont. Generally, the regulatory conditions are less burdensome on the captive, thereby reducing the cost of operation. The captive can be owned by the employer and used to assume the risk transferred from the employer (State). The State can elect to enter a shared ownership arrangement or simply use an existing captive with no ownership. In conjunction with a SI program, the State would select the amount of risk to be transferred to the captive.

### **Fronting Insurer**

Fronting Insurers are established to serve an employer that desires to retain the advantages of SI programs by paying all of the cost to a "front" company that serves as an entree to a licensed commercial insurance company. The fronting company generally has minimal capital and relies on the licensed insurance company to serve as the ultimate risk bearer. The Fronting Model is generally more appropriate for smaller employers.

### **Fully Insured**

The use of an insurer to assume the risk of the State's workers' compensation program does transfer the risk from the State, but as stated above, the State's exposure due to its size is well diversified already. An assessment should be made on this option but the probability of significant benefits to be gained is minimal. As the State is transferring its risk to the carrier, the State will give up its autonomy in customizing its program to fit its unique needs. An evaluation of the losses likely to occur with the depersonalized must be assessed against the cost and benefits of structuring a program unique to the West Virginia needs.

This model can be altered to allow the State to assume some of the program risk. The introduction of a high deductible plan removes the first dollar coverage liability from the carrier, a factor that will reduce the premiums. Offsetting this will be the insurer's desire to maintain control of the administrative processes of the program. The insurer may elect to reinsure part of the risk (if all of the risk is reinsured, the insurer becomes a "fronting program". Again, the reinsurance arrangements can place additional requirements on the administration of the program.

### **ADMINISTRATIVE MODELS**

A clear opportunity exists in the administration of the SI workers' compensation program for a large employer such as the State. The size of the West Virginia allows the introduction of programs designed to meet the State's needs and best interest and gain the important scalar economies which assures the achievement of cost economies as well as the benefit of focusing business to a specialty provider who can then justify the investment in specialty programs, training and management to assure the State receives the best possible product.

ADMINISTRATIVE MODELS		
SELF-INSURED	COMBINATIONS OF SI AND I	FULLY INSURED
SELF-ADMINISTERED	SELF-ADMINISTERED	INSURER
OUTSOURCED	OUTSOURCED	

The State should anticipate that if operating under a full insured model, it is unlikely that an insurer will allow the State to administer its own claims and consequently the ability to customize the program to meet the State's needs will be limited.

### Self -Administration

While self-administration of the self-insured worker's compensation program is possible, prior to following this path, the following factors must be evaluated in making a decision to go in this direction.

- Staffing including an assessment of the States' HR policies, flexibility in salaries, training capabilities and availability of qualified staff.
- Computer systems including the ability to customize, support and accessibility to all claims and claims related personnel, ad hoc reporting features, financial integrity.
- Personnel and financial resources necessary to assure the program advances as new technologies are introduced.
- Modification capability to meet the changing program needs.
- Claim reporting capability (web, telephonic, fax)
- A Self-Administered Program involves the State assuming the direct responsibility of managing its claims. Some of the factors that need to be considered in this decision are:
- Fiscal integrity of the program assuring compliance with typical SAS70 requirements.
- Adherence to the workers' compensation laws which may conflict with possible political agendas on specific cases.
- Quality assurance, an issue with both external and self-administration of the program. This can place a demand on internal resources that may not be available or have the required expertise.
- Complete documentation of the program, including all ancillary services required for a complete program.
- Management / coordination of service with all ancillary service providers
- Regulatory compliance with State and Federal mandates.
- Storage and access to documents.
- Funding of the losses for medical, indemnity and expense payments as well as payment.
- System access by state agencies with security.
- Staffing during times of personnel shortages, either permanent or temporary outages.
- Disaster recovery capability.

In stage one which is in preparation of a service RFP, all of these issues should be addressed in making a decision to determine the administration of the program.

## **Outsourced Administration**

Assuming the State desires to operate a program that will minimize the total program cost, a determination must be made of all of the program components that must be included. The objective should be to focus on total program cost, not simply administrative cost. The following is a brief list of possible components that could be included in the outsourced administration of the self-insured program (this list is not all inclusive and it may be reasonable not to offer all of these services):

- TPA services
- Types of claim reporting
- Telephonic case management
- Field Medical Case Management
- Vocational case management
- Loss prevention services (while this may be already provided, there is a real need to have this service coordinated with the workers' compensation claims management program, such as immediate inspection of some accident sites.
- OSHA compliance if required and even if not required, some form of compliance may be desirable.
- Provider networks
- Pharmacy network
- Diagnostic Services
- Physical Therapy networks along with UR capability
- Durable medical Equipment
- Life care planning
- Independent Medical Exams
- Functional capacity evaluations
- Home healthcare services

In addition to all of these services, the question of how all of these services will be managed must be addressed. The State must make a determination of the degree of separation that is required between the TPA, which typically is the agency responsible for ordering the support services, and the financial separation and independence of the service providers from the TPA.

## **RISK FINANCING**

As an economic variable, the establishment of premiums that are ultimately paid by the State Agencies can be an important variable in influencing the behavior of the Agency regarding the workers' compensation program. It has been MCI's experience with the Commonwealth of Virginia that an agency's senior management involvement in the workers' compensation program is directly related to the cost of the program. Opportunities that offer reductions in program cost are more likely to be well received if the cost reductions transfer to the agency.

Determinations in these areas will be based on interviews of key decision makers. Clearly the choice between cash flow and incurred values is fundamental. For private sector employers, cash flow financing is simply not acceptable. However, for public sector accounts, a great deal of latitude and flexibility is available, the ultimate reason being the general taxing powers of the

government. Schedule rating is a methodology that provides rewards for certain behavior, where the behavior is expected to generate positive results. For example, an agency that complies with specified loss prevention training or procedures is given an upfront credit on the premium cost. There is no guaranty that the altered behavior will generate the expected results. Experience rating likewise establishes premiums based on the loss experience of the program and then can filter down to the agencies that have generated the favorable outcomes. All of these options have application under any of the risk sharing arrangements.

#### **ERM - MEASURING PROGRESS / THE CONTINUOUS IMPROVEMENT PROCESS**

Monitoring the Ongoing Program is a major value added service offered by MCI. In the role of Total Program Management for the COV and the Montgomery County Self-Insurance Program, MCI requires weekly / monthly reporting from the key component service providers. In monthly quality assurance meetings, MCI will review with the service provider program performance, new initiatives and the status on outstanding projects. The foundation for this process will be a Procedure Manual that will thoroughly address the entire program.

#### **2.4.2 Goal/Objective 2:**

***To find a consultant to assist the OIC who is fully familiar with State and Federal laws and regulations that affect Workers' Compensation coverage for the State of West Virginia and its agencies.***

#### **Vendor Response:**

The MCI experience in designing and managing workers' compensation programs has been enhanced by one of the MCI's owner's experience in working with the Virginia Bureau of Insurance. Insurance regulations are designed to assure the achievement of legislative objectives and mandates. To assure compliance with the regulations promulgated by the OIC, it is necessary to perform reviews and audits to assure that the standards are being met. Failure to meeting the established standards typically results in a degrading of service and protection of the public interest. The experience of MCI in providing total program management is similar in part to the traditional "market conduct" exams performed by insurance regulators. MCI performs this service to assure that established service standards are met. As an obligation to our accounts, MCI requires the subcontractors to established detailed written procedures to assure compliance. Without this, the client (OIC) will not receive the quality program expected.

For example, in reviewing the "Standards for Self Insured Claims audits, a document that should serve as a basic outline for a claims procedure manual, the following are noted:

1. A 4 requires written policies, general standards and procedures, in MCI's estimate, a fundamental for a service provider.
2. B 1 addresses the recording and resolution of complaints. From MCI's management view, the OIC Workers' Compensation Program should have not only this, but a requirement of recording all incidents as this is used to determine if an incident is truly random or is there a pattern developing that could lead to a bigger problem. Interestingly, this is typically a SAS 70 requirement but MCI has discovered that it is not always followed at the level MCI expects.
3. C addresses Claims and includes a variety of items that cover claims practices and standards.

Rule 1 provides an excellent example of claims standards that must be met. Failure to meet these standards is clearly a service deficiency and may initially cause an injured worker to not be treated as required by law which may result in penalizing the employee's workers' compensation benefits, an action that is likely to cost more in the long run.

The OIC has requirements regarding the use of EDI for providing important claim and payment information. This must be done timely and accurately. The general purpose of EDI is to operate with greater efficiency and economy. In this capacity, MCI has been a lead partner with the Virginia Workers' Compensation Commission in transitioning from a paper as a means of sharing information to the world of EDI for the submission of required information.

Rule 20 addresses Medical Management and provides guidelines to assist in assuring the needed services are provided to an injured worker. Too often today the legacy processes of the employee health insurance industry burdens the delivery of medical benefits to injured workers. Health insurers generally focus on minimizing health insurance cost with no regard to the cost of the disability period. An injured worker may be far better off with the timely delivery of medical care rather than simply waiting for a "miracle" recovery.

Regarding loss prevention services, the West Virginia State Employees fall under the Federal OSHA program. MCI is thoroughly familiar with the OSHA requirements and provides services on a regular basis that meets the OSHA requirements.

### **2.4.3 Goal/Objective 3:**

***To find a consultant to assist the OIC who can analyze previous and on-going State Agency Workers' Compensation program performance and provide written recommendations including pre-and-post loss goals; loss prevention, reduction, and mitigation strategies, etc.***

#### **Vendor Response:**

Thirteen years of experience in managing the Commonwealth of Virginia's workers' compensation programs has provided a vast array of experiences that will assist MCI in supporting OIC's development of an RFP that will best meet the needs of the State. MCI had intended on partnering with a consulting actuary to assess the various risk financing options developed from a statistical and actuarial analysis of the historic data held by Brickstreet. Clarification of the RFP stated that OIC desires the Proposer to plan on using the OIC's consulting actuary. MCI will be dependent upon the quality and timeliness of the work product of the consulting actuary. The consulting actuary will be required to provide recommendations on premium allocation methodologies and amounts which include retrospective and prospective models for allocating cost, including deductible models. Based on the analysis of loss history and assessment of the State's appetite for accepting risk, MCI will be prepared to make recommendations on the use excess, insurance or reinsurance if the data indicate that the coverage is appropriate.

In Phase I, information regarding the major program users (State Agencies) must be interviewed to determine the processes currently used under Brickstreet. The review process is to assess the present environment to determine what additional services and or changes in present services is required to improve program effectiveness. This review, if available, should also include with key individuals on the Brickstreet claims staff.

Simultaneously, MCI will review the state of the loss prevention services used at each agency and will gain an understanding of the resources the Agency has available for loss prevention programs. Loss Prevention Programs promise major cost containment success.

***A DETAILED IMPLEMENTATION PLAN AND TIMELINE IS INCLUDED IN ATTACHMENT B: MANDATORY SPECIFICATION CHECKLIST (2.5.3).***



**2.4.4 Goal/Objective 4:**

***To find a consultant to assist the OIC who can compare and contrast State Agency Workers' Compensation plan risk financing options and assist in the selection of the most appropriate technique(s).***

**Vendor Response:**

Please refer to Page 18: **2.4.1 Goal/Objective 1**: The MCI proposal outlined the multiple options to be explored and evaluated. It is unlikely that all of these options warrant extensive investigation. As part of the duties of the OIC's consultant, MCI believes that some of these options can be set aside without incurring costly analysis. The objective is to focus energy in the areas likely to be the most productive. The proposal is divided into two components; first, an overview of the risk sharing models; and second a more detailed analysis of the paradigms included in the various risk financing models. The OIC's consulting actuary will be a key component of the MCI team in completing this task.

It is MCI's objective to complete a review of these models as they would apply to West Virginia and then make a recommendation as to the risk financing model that most appropriately suits the needs of the West Virginia government and OIC for the workers' compensation program.

#### **2.4.5 Goal/Objective 5:**

***To find a consultant to assist the OIC in selecting, establishing, administering and evaluating value-added services such as Premium Auditing, Claims Administration, or Return to Work Programs.***

#### **Vendor Response:**

MCI, in the role of the General Contractor for workers' compensation, provides a turnkey solution for administering a self-insured workers' compensation program that can contain an insured component. The Commonwealth of Virginia or the Montgomery County Self-Insured Program provides excellent examples of the application of this service.

In preparation for submitting a proposal for such an opportunity, MCI will perform an assessment of the needs of the client. With this information, MCI identifies the component services that are required to support the program. For each of the components, MCI will develop a requirements list and a list of possible service providers. Telephone interviews are held with the prospective service providers and based on the findings, a subset of these organizations will be asked to make a formal presentation of their services. In essence, the organization is responding to a request for information from MCI. MCI will have a standard questionnaire for collecting results and the information collected will be used in making a final decision. After checking references and reviewing results, MCI will reach a decision as to the service provider that best meets the need of the MCI prospective client. MCI will present a preliminary contract with the preferred vendor for serving as an MCI team member to serve the account. At this point, the vendor will be part of the MCI team and will become involved in developing a response to the forthcoming RFP.

The magnitude of the role of the individual service provider will depend upon the level and intensity of the review of the service provider's capability and management's appetite to devote the resources to a customized program. The following is a list of the types of service providers that typically are included in an MCI program.

1. Third Party Administrator
2. Loss Prevention Analysis and Services
3. Medical Bill Adjudication
4. Specialty medical audit services
5. Telephonic Case Management
6. Field Medical Case Management
7. Vocational Case Management
8. Medical Director Selection and Support
9. PPO Network
10. Surveillance
11. Independent Medical Examinations
12. Functional Capacity Exams
13. Diagnostic Network
14. Physical Therapy Network
15. Payroll Classification and Audit Services
16. MSA and MSA lien recoveries

In developing the MCI model, generally MCI will contract with only one service provider per category. The reason is simple, MCI works with the service provider to develop a set of comprehensive procedures, generally far more extensive than what is required in the market place. Given the investment the vender must make in this process as well as the associated training and the effort to assure compliance with standards, all of which add to operating cost, MCI is willing to grant the service provider the opportunity to handle all of the business from the MCI client. This is the quid pro quo for meeting the MCI requirements. In addition, MCI is generally able to negotiate favorable pricing as a result of the vender's expectation of higher volume.

The services being requested by OIC are what typically MCI provides for its clients with the primary difference is in the MCI model the service provider is under direct contract with MCI and in that sense, is directly accountable to MCI. This model and our direct contract with the service provider allows MCI to replace a poorly performing team partner without the client going through a formal bid and procurement process.

To be discussed with OIC is the use of the consulting actuary to assist MCI in designing an incentive / penalty program based on the programs total performance. This is a program that would be based on total program performance and customer service satisfaction rather than on individual measures of operation performance. The OIC with such a program can provide in Phase II an economic incentive for superior program performance without a reduction in the quality of service received by the State's agencies.

#### **2.4.6 Goal/Objective 6:**

***To find a consultant who can assist the OIC in developing needed policies and procedures for effective administration and evaluation of the program(s) ultimately developed.***

#### **Vendor Response:**

Establishing policies requires a clear statement of program goals and objectives. MCI, as the Total Program Manager for the Commonwealth of Virginia (COV) operates under goals and objectives developed jointly and approved by COV. The goals must establish a wide range of outcomes; the most obvious are financial, service related, and within the letter and spirit of the West Virginia Law. The equitable treatment of employees is mandatory. These goals will be customized to meet the needs of the State Agencies and there is the potential for some variance as Agencies will have differing needs. The program for the State ultimately will be large and it is required that customization within the program to accommodate specific agency needs be available. Ultimately, the selected goals must be quantifiable and to the degree possible, unbiased. Over the life of the program, the goals will be enhanced and modified to meet the needs of the State.

With the establishment of the goals, the vendors selected in Phase II will be required to establish detailed procedures for all segments of the program. General industry standards treat these requirements somewhat lightly, relegated to the category named "client instructions". MCI has found this standard to be inadequate. Detailed instructions are mandatory to assure the proper management of the program. Ultimately, the complexity of the program will result in problems, some more material than others. One must always keep in mind the financial accountability that is required and this is best met through thorough and properly designed procedures. In addition, there must be a process that tracks incidents where procedures were not followed or processes did not work. The incident log becomes the device for uncovering programs that can grow into major situations, a condition the properly managed program is likely to avoid. These procedures should be approved by the OIC.

The procedures are the foundation for the program. This foundation serves as the basis for training, provides the resource guide for both existing and new employees to use when memory proves inadequate. The procedures will be used to define the areas requiring audits designed to detect successful operations and identify areas with problem that must be addressed. The audit results become a critical factor used in assessing the employees' performance. SAS 70 audits focus on the procedures as this is the area where controls are covered and if the basic operation does not contain sufficient controls to assure compliance, then there must be compensating controls (perhaps a manual process) to assure that the fault is covered. Finally, the procedure must address the contract standards that are negotiated between the vendor and the OIC. These standards are part of the real benchmarks that are used to assess the quality of the service provided.

Programs managed by MCI have encyclopedic procedure manuals as they are meant to serve as a resource to the user on how situations are to be managed. Without this, uniformity of the program will not be achieved and consequently, goals will be missed. Regardless of the program design ultimately adopted by OIC, there will be unique design features required by OIC.

The one exception to this is if OIC made a decision to accept a fully insured workers' compensation program offered by a licensed insurer in which case it is an issue that requires addressing by the insurer. Little customization should be expected with that type of model. Where OIC uses a contractor to provide claims services and is working with State funds, it is necessary to assure that all financial transactions follow accepted procedures. For example, what is the process for handling stale checks and unclaimed property? The State has an obligation to follow its own laws and regulations and cannot defer to a national company that operates on its national policy guidelines.

The following is the Table of Contents for the Commonwealth of Virginia, MCI Claims Procedure Manual. Development of a comprehensive Claims Procedure Manual is a critical success factor for the West Virginia workers' compensation program.

### **MCI Workers' Compensation Procedure Manual**

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Section 32	Liquidated Damages
Section 33	Reports from Field Consultant to the Appropriate BC
Section 34	Job Club
Section 35	Affidavits for Marital Status & Continuing Education Verification for Death Claims
Section 36	Eliminated
Section 37	Incoming Mail & Scanning Procedures
Section 38	Diaries (Automated System Generated Things to Do)

Section 39	Referral for On-Site Field Investigation
Section 40	Lost File Recreation Process
Section 41	Joint Recovery without Subrogation – Anthem
Section 42	Visual Reports Studio
Section 43	Application Access Control Policy
Section 44	Sedgwick Medical Overpayment and Duplicate Payment Policy
Section 45	W-9 and 1099 Tracking Workflow Procedures
Section 46	Eliminated
Section 47	Office EDI Processes
Section 48	Quit Return Procedures
Section 49	Opening and Closing of MVS Field Files
Section 50	M Hayes Management with Co-Morbid Conditions Present
Section 51	Security/Badging Policy

A review of the Table of Contents of this Claims Procedure Manual provides a view of the required steps for consistency and Total Program Management of a workers' compensation program and gives indication to the lack of control, quality and consistency that will result without such a guideline. This does not eliminate the initiatives of strong claims management, but rather moves to assure that the promised service is delivered.

## **Attachment B: Mandatory Specification Checklist**

*List mandatory specifications contained in Section 2.5:*

**2.5.1 The vendor must demonstrate that it has the training and experience necessary to meet all the project goals and objectives listed in 2.3.**

### Vendor Response:

The Preamble to Attachment A provides a summary of the keys to success and results of the workers' compensation program Managed Care Innovations (MCI) manages for the Commonwealth of Virginia (COV). The performance of this program is a result of the years of experience of the two MCI Principals. Bobby Cone was a Professor of Economics at the University of Richmond and then served as the Economist for the Virginia Bureau of Insurance for five years and ultimately joined Consolidated Healthcare, the Blue Cross Blue Shield of Virginia holding company where he directed the Blues entry into the workers' compensation market through the acquisition of a TPA, Trigon Administrators. Concurrently, Monty McFadden served as a hearing officer for the Ohio Workers' Compensation Commission and then joined Nationwide and its affiliate company Gates McDonald. Collectively, Monty and Bobby orchestrated the importation of the Blue Cross Blue Shield medical managed care cost containment services to the workers' compensation arena and then managed the operations of the TPA for ten years. During and following this period, Bobby and Monty were instrumental in directing the entry of multiple Blue Cross Blue Shield Plans into the P & C market. In 1996, MCI was formed to continue to work and promote the Blues participation in this market as well as to introduce to the market the MCI Total Program Management model.

MCI brings to OIC a range of critical skills required to assure a strong and successful State workers' compensation program. The MCI experience gained through creating and managing the COV workers' compensation program is transferable to the West Virginia program. The ability to maintain a focus on each component of the program allows the individual program component parts to remain focused on their respective responsibilities. MCI has required the team partners supporting the program to collectively assist in thoroughly documenting the procedures to be followed. This assures the delivery of a consistent service. Further, standards approved by the COV are established and each team partner is required to meet these expectations. Monthly, MCI meets with each major team partner to review performance against the preset standards, discuss successes and failures and put in place projects designed to offset program deficiencies. An important function of this meeting is to evaluate and identify opportunities for continuous improvement.

MCI brings to OIC an understanding and diversity of the needs of the various state agencies. Filing claims can be made much easier for the Agency if accommodations can be made to meet an Agency's unique needs. This in itself introduces another problem. The accuracy of the coding of claim information is critical to the ability of those responsible for loss prevention programs. Inaccurate coding renders data analysis questionable. What is the process of the TPA once a claim is submitted? The State may have goals that require deviations from standard workers' compensation practices. For example, will the State prefer to pay medical bills on claims up until the point of compensability determination? How will medical management be used; on all claims or on a subset? Will the focus be on telephonic or field case management? What resources do the Agencies contain for promoting and complying with to return to work



(RTW) programs? What type of specific claim reporting will OIC require, such as large loss reports or contested claims reports? The questions broaden to include loss prevention programs. Information related to these activities must be collected in the initial stage of the project.

While the MCI model can be adapted to the OIC program in the form presently used for the COV, it can be modified to oversee the OIC program in Phase III as presented in this RFP. In the latter case, MCI would serve as the OIC's Enterprise Risk Management consultant with OIC serving as the contractor of the service providers. While the MCI model is effective, the model becomes more effective with increased collaborative support from OIC and its contractors.

#### **Staff Certifications or Degrees Applicable to this Project**

In Section 2.5.3 of this Attachment B are the resumes for the key individuals involved in supporting the OIC with the staff expertise needed to properly fulfill the role of the Enterprise Risk Management consultant. As presented in Section A, MCI has significant experience in designing and managing the COV workers' compensation program. In addition to Bobby Cone and Monty McFadden, key representatives include Ms. Pearl Monroe who has total management responsibility for the Montgomery County Self-Insurance Program and Mr. Jack Sullivan who is responsible for the design and overall management of the Commonwealth of Virginia's Loss Prevention Program. Jack has also directed loss prevention programs for the Montgomery County Self-Insurance Program. The management model used by MCI is materially different from the standard TPA approach of managing the entire program. MCI allows for continued focus on the total program and escapes the issues being raised today regarding TPA bundling and controlling ancillary services. (See the letter to Mr. Fohl, Manager, Division of Risk Management State of Tennessee and the *Business Insurance* Article in Attachment A: for discussions on the Bundling of Services issues.)

**2.5.2 The vendor must provide the OIC with the names and contact information for other clients for whom the vendor has supplied the same or substantially the same services.**

Vendor Response:

Below are references with contact information for Managed Care Innovations.

Commonwealth of Virginia

(A self-insured Workers' Compensation Program covering approximately 120,000 employees)

Name: Ms. F. Kristie McClaren  
 Title: Director, Workers' Compensation Services  
 Address: Commonwealth of Virginia  
 James Monroe Building, 6th Floor 101 N. 14th Street  
 Richmond, Virginia 23219  
 Office : 804 786-0362  
 E mail: [kmcclaren@dhrm.state.va.us](mailto:kmcclaren@dhrm.state.va.us)

Name: Ms. Sara Wilson  
 Title: Director, Department of Human Resource Management  
 Address: Commonwealth of Virginia  
 James Monroe Building, 12th Floor, 101 N. 14th Street  
 Richmond, Virginia 23219  
 Office: 804 225-2237  
 E mail: [sara.wilson@dhrm.virginia.gov](mailto:sara.wilson@dhrm.virginia.gov)

Montgomery County Self-Insurance Association

(A self-insured Workers' Compensation, AL, GL and Property covering approximately 55,000 employees)

Name: Mr. D. Terry Fleming  
 Title: Chief, Division of Risk Management  
 Address: Montgomery County Government  
 101 Monroe St. 15th Floor  
 Rockville, MD 20850  
 Phone: 240 777-8911  
 E Mail: [terry.fleming@montgomerycountymd.gov](mailto:terry.fleming@montgomerycountymd.gov)

Name: Ms. Lissa H. Bales  
 Title: Claims Manager  
 Address: Montgomery County Government  
 101 Monroe St. 15th Floor  
 Rockville, MD 20850  
 Phone: 240 777-8903  
 E mail: [liisa.bales@montgomerycountymd.gov](mailto:liisa.bales@montgomerycountymd.gov)

State of Vermont

An evaluation of the State of Vermont's workers' compensation medical cost containment and loss prevention services programs with recommendations.

Name: Mr. William Duchac  
 Title: Risk Manager  
 Address: 2 Governor Aiken Avenue  
 Montpelier, Vermont 05663  
 Phone: 802 828-4671  
 E mail: **bill.duchac@state.vt.us**

State of Louisiana

MCI assisted the State's Risk Manager in transitioning its self-insured self administered property, casualty and liability programs to an out sourced program. Consultation included design of the RFP and safeguards for the State.

Name: Mr. J. S. Thompson  
 Title: State Risk Director  
 Address: Office of Risk Management  
 P. O. Box 94095  
 Baton Rouge, LA 70804-9095  
 E mail: **bud.thompson@la.gov**

**2.5.3 The vendor must provide the OIC with a detailed defensible work-plan demonstrating how it would address the OIC's needs as outlined in this RFP including specific timelines, as the successful program must be up and running by September 1, 2011. The vendor should estimate how many hours it believes will be necessary to complete the work needed from inception of the contract. The vendor should provide the resumes, experience and training of its key staff. The vendor should prepare a proposed timeline with a compilation of the major phases/activities to be accomplished from inception of the consultant contract to implementation of the program, and include proposed deliverables within the timeline.**

Vendor Response:

**Phase I - Work Plan Overview:**

The deliverable product to OIC is a recommendation for the design, structure and financing that will be required of the State of West Virginia's workers' compensation program. The first step will be the collection of financial and descriptive program information regarding the present program. This will include financial loss information required by the Consulting Actuary (OIC) to assess program risk (variance), claims costs with confidence levels, and propose pricing allocation models which could include allocation by payroll or by experience rating. The data will have to be provided by Brickstreet. Ultimately, this information will be important in determining the level of risk sharing that will be required by the program.

Information Gathering

MCI will require information on the Agencies that will be participating in the new program which will include sub agencies. The plan is to develop an information questionnaire that can be distributed prior to a meeting with the agency and or sub-agency. The objectives in this step are to determine the present processes used by the agency and determine the strengths and weaknesses of the present claims service. An understanding of what the agency believes to be good customer service will be documented. Also, MCI will be seeking to understand the resources that the agencies have available to support the workers compensation program. This will enable MCI to assure that the program design can be accommodated as well as the type of training that will be required. In this process, a review of existing procedures will be made. From this information, MCI will construct a service model that will be recommended to OIC. This step is expected to be independent of the risk financing recommendation referenced above.

Loss Prevention Information Gathering

The loss prevention assessment will begin with a review by agency of the loss information generally found in loss runs. Assuming the data is of reasonable quality, a determination can be made of the cost drivers influencing the large agencies. Simultaneously with the data collection efforts of MCI, a questionnaire will be distributed prior to meeting with we agency which is designed to capture an understanding of the current loss prevention program. Likewise this assessment stage will also attempt to assess the quality and quantity of resources available at the agency level that are supporting the loss prevention effort. In addition, an assessment will be made of the support given loss prevention programs by the existing agency senior management.

### Information Sharing

Throughout this process, MCI will hold regular update meetings with OIC to share information and discuss the progress of the project. It is important that OIC participate so that decisions can be made on a timely basis to prevent unproductive initiatives. The need for OIC input is critical at the initial phases of the study as this will assure that MCI is covering OIC's needs.

### Analysis

Once all of the information is gathered, MCI will consult with its partners and will provide a discussion document to be shared with OIC. MCI will prepare options and seek OIC's council as to the direction deemed most satisfactory. Decisions will be required on risk financing as well as the structure of the claims service model most likely to be responsive to the State's needs.

### Other Issues

There are infrastructure questions that must be identified and addresses. For example, does the State desire the program to be offered from a dedicated office? Does the OIC have space that can be used to operate the program? How does OIC desire the litigation associated with workers' compensation claims to be handled? For example, the Attorney General's Office in the Commonwealth of Virginia has responsibility for providing legal support for the workers' compensation program. Does OIC desire to have a separate SAS 70 audit for its program as opposed to a TPA sponsored SAS 70 audit? As the Total Program Manager for the Commonwealth of Virginia's workers' compensation program, MCI is prepared to assist OIC in identifying these issues and formulating recommendations. All of these factors are important in determining overall program success.

### RFP Phase II Development

MCI will work with OIC and their Procurement Division regarding the structure of the Phase II RFP. The RFP should include the support information necessary for bidders to provide informed Proposals, the services required, the systems and reporting capabilities, the service standards required, the program reporting expected on a frequency expected, the quality assurance processes to be used, the pricing and the data to support the proposed pricing and a disclosure requirement designed to assure that all inter and intra company financial transactions are understood and deemed neutral. The pricing introduces an interesting challenge because this is a new program that has not achieved an equilibrium state. This is likely to require a per claim methodology for initial pricing but a transition to a flat fee price as the program matures. OIC may want to consider the establishment of an incentive program based on total program performance and not on individual operations measures.

MCI estimates the number of hours for Phase I and Phase II of this project to be 323 hours among the positions of Principal, Manager and Support Staff. *This is an estimate only* as there are numerous factors that can alter the time estimates, either reductions or increases.

The following is a time line for performing these tasks. MCI anticipates that through discussions with OIC, modification in the plan will be required.

### OIC WORKERS' COMPENSATION TIME SCHEDULE

Item	Participants	Content	Start	End
Organization and Planning Meeting	MCI, OIC, Actuary	OIC Introduction and Overview, MCI Introduction and Overview, Objectives of key State Agencies Survey, Risk Financing Options, Information and claims data needs, Loss Prevention, EO's, OIC's view of the WC Program in the future.	3/15/2011	3/15/2011
Meeting with Consulting Actuary	MCI, Actuary	Acquisition of required data, analysis, aggregate and agency pricing, Discuss possible incentive plans	3/15/2011	3/15/2011
Development of Agency Survey	MCI	Survey to be distributed with meetings planned with the large agencies.	3/18/2011	3/18/2011
Distribute and Meet with agencies MCI	MCI Agency Interviews	To determine strengths and weaknesses of current program, resources available and needs	3/23/2011	3/25/2011
Agency Survey Summarized Results	MCI	Provide summary of agency needs, practices, loss prevention	3/25/2011	3/30/2011
Actuary assessment and draft report	Actuary, MCI	Assessment of variability of outcomes and excess insurance recommendations	3/30/2011	3/30/2011
Conference with States' Insurance Broker	MCI, Actuary	To discuss any need for insurance products and if it is likely to be economically reasonable	3/30/2011	3/30/2011
Draft Report of Risk Financing Recommendations	MCI, Actuary	Working document to be discussed with OIC	3/30/2011	4/6/2011
Discuss Working Document	MCI, OIC, Actuary	Discussions to include program design and RFP requirements. This will include key areas of the program regarding the location, systems availability, imaging and others	4/6/2011	4/11/2011
Draft RFP	MCI, OIC, Procurement	To include support information, program requirements, service standards, QA requirements, transparency requirements, support for agency requirements (training), evaluation process	4/11/2011	4/18/2011
Meet to finalize RFP	MCI, OIC, Procurement	Finalize RFP and Release	4/18/2011	4/22/2011
Proposal Assessment	MCI	Review Proposals with Recommendations	5/17/2011	
Contract Award	OIC		6/1/2011	

While the proposed timeline is aggressive, MCI believes that this can be met with timely support from the OIC's actuary and the State Agencies that will be involved in the data and information gathering portion of the Project.

## **Resumes**

Following are the resumes for key individuals to providing OIC with consulting services to develop and manage / monitor the State's workers' compensation program. The personnel resources to support this Proposal are all employees of Managed care Innovations.

### **Principal**

- Robert T. C. Cone
- J. Monty McFadden
- John C. Sullivan

### **Manager**

- Pearl Monroe

### **Support Staff**

- Mary Lamberth

**MANAGED CARE INNOVATIONS LLC**

316 West Broad Street  
Richmond, VA 23220

**Dr. Robert T. C. Cone / Principal and Owner**

Phone/Fax: 804-344-0009 / 804-344-4443

**Rcone@MCIinnovations.com**

**EXPERIENCE**

Over forty-three years in the insurance industry with experience as a regulator and in senior management of a third party administrator. Management experience in designing, developing and implementing claims and managed care programs tailored to WC.

**WORK HISTORY**

- |                       |  |
|-----------------------|--|
| <b>3/96 – present</b> | <b>Principal, Managed Care Innovations</b><br>Consult and assist third party payers with the development of managed care strategies and serve as General Contractor to manage program performance. Established Loss Control Innovations in 2001 to assist employers with the identification of loss prevention strategies.   |
| <b>1985 – 2/96</b>    | <b>Vice President, Operations and Business Development<br/>Trigon Administrators, Inc., Property and Casualty Division</b><br>Responsibility for Trigon Blue Cross Blue Shield's acquisition of Trigon Administrators; development of a twenty-four Hour Benefits Administration; creation of an exclusive provider organization (EPO) for a multi-state negotiated network for workers' compensation and liability programs; introduction of medical management for workers' compensation, auto and general liability programs; |
| <b>1981 - 1985</b>    | <b>Virginia State Corporation City, Dept. of Insurance</b><br>Responsible for Re-codification of the P&C Chapters of the Insurance Code. Provided expert witness testimony on Rate of Return for WC, Medical Malpractice and Credit Life Insurance. Served in multiple capacities in supporting the NAIC.  |
| <b>1977 - 1981</b>    | <b>University of Richmond / Professor of Economics</b><br>Taught in the areas of monetary and international economics. Served as a consultant for public utilities, banking and insurance through the Commissioners of Insurance, Banking and Public Utilities.  |
| <b>1968 - 1977</b>    | <b>Professor of Economics/Virginia Commonwealth University</b>   |
- EDUCATION**
- University of Kentucky / Doctor of Business Administration  
 Monetary and International Economics and Finance  
 Virginia Commonwealth University / Master of Science (Business)  
 Virginia Commonwealth University / Bachelor of Science (Economics)



**MANAGED CARE INNOVATIONS LLC**

316 West Broad Street  
Richmond, VA 23220

**J. Monty McFadden / Principal and Owner**

Phone/Fax: 804-344-0009 / 804-344-4443

**Mmcfadden@MCInnovations.com**

**EXPERIENCE**

In excess of twenty-four years managing third party administrative services, designing and directing strategies to improve performance for claims services, managed care and loss prevention programs for self-insured and managed care programs.

**WORK HISTORY**

**3/96 – present**

**Principal, Managed Care Innovations**

Consult and assist third party payers with the development of managed care strategies and serve as General Contractor to manage program performance. Established Loss Control Innovations in 2001 to assist employers with the identification of loss prevention strategies.

**1/92 – 2/96**

**Vice President, Marketing and Sales****Trigon Administrators, Inc. P&C Division**

Shared responsibility with the Vice President of Operations for the Property and Casualty Division and growth of the company over a six year period of approximately 600%. Specific responsibility for the marketing strategy, revenue and retention of business. Direct management of the Marketing, Sales, and Loss Prevention division. Responsibility for product pricing, excess insurance placement, account and contract management. Implemented new product line for the re-pricing of medical services and managed care.

**1988-1992**

**Vice President Sales, Trigon Administrators, Inc.**

Development and implementation of a plan to establish a sales staff to stabilize client retention and increase new and existing revenues. Increased the scope of operation from Virginia to Maryland, North and South Carolina.

**1985-1988**

**Regional Marketing Director**

Gates McDonald and Company, North Carolina

**1977-1984**

**Regional Sales Manager**

Gates McDonald and Company, Ohio

**1974-1977**

**Staff Hearing Officer**

State of Ohio, Industrial Commission

**EDUCATION:**

Kent State University, Business Administration

**MANAGED CARE INNOVATIONS LLC**

316 West Broad Street  
Richmond, VA 23220

**Pearl B Monroe / Account Director**

Phone: 703/919-2102

**PMonroe@MCIinnovations.com**

**EXPERIENCE**

Over twenty-six years in the insurance industry with third party administrator experience. Strong technical, managerial and organizational skills with a demonstrated understanding of workers compensation and casualty claims.

**Work History**

5/07 – present	Sr. Consultant and Account Director
10/04 – 4/07	Quality Assurance Management, Frank Gates Companies and M Hayes & Associates. Oversight of Quality Assurance.
1984 – 5/04	<p>Crawford &amp; Company –</p> <p>Hub Manager – Responsible for overall operations of Maryland, Virginia, District of Columbia, North Carolina, South Carolina, Georgia, Alabama, Tennessee and Florida. In excess of 200 employees handling national accounts and client dedicated units. Set goals and objects to meet corporate and client objectives.</p> <p>VP – Regional Manager – Covering Maine, Connecticut, New York, New Jersey, Maryland, Virginia, District of Columbia, North Carolina, South Carolina, Georgia, Alabama, Tennessee and Florida. Responsible for 350 employees handling all lines for national, client dedicated and single branch accounts.</p> <p>Service Center Manager – Responsible for day-to-day operations of the Fairfax, Virginia location. Management including financial, human resource, client liaison and sales. Technical staff consisted of Adjusters with oversight for large dollar losses.</p> <p>Branch Manager – Clifton, New Jersey. Manger of Operations, Claims and Health Care Management</p>

**Education**

1982	<p>BS – Business Administration</p> <p>Johnson C. Smith University, Charlotte, NC</p>
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**LOSS CONTROL INNOVATIONS (a division of MCI)**

316 West Broad Street  
Richmond, VA 23220

**John C. Sullivan CSP, CFPS**

Managing Partner, Loss Control Innovations  
Phone/Fax: 804-344-0009, ext. 308 / 804-344-4443

**JSullivan@LCInnovations.com**

**Experience**

Since 1978, providing safety, loss control and fire protection consultation for commercial, industrial, governmental and institutional clients. Jack is a Certified Safety Professional (CSP), a Certified Fire Protection Specialist (CFPS) and an Authorized OSHA General Industry Outreach Instructor. Jack provides nationwide training for fire service, Highway Incident Safety, fire and EMS. Jack also serves with the Virginia Dept. of Emergency Management.

**Work History****2001 – present      Loss Control Innovations**

Loss Control Consultant for state and local governments, as well as other SI entities. Long Range Loss Control Plan development for the Virginia's Department of Human Resource Management as well as safety consulting, training, and planning for loss control services.

**1978 – 2001      Loss Control Services - Chubb Group of Insurance Companies**  
Loss Control Consultant, Manager and Assistant Vice President in the Philadelphia and Richmond regional offices.

**EDUCATION**

B.S., Business Administration, Management, Drexel University  
Certified Safety Professional (CSP);  
Certified Fire Protection Specialist (CFPS)  
Authorized OSHA Outreach Instructor

**PROFESSIONAL SOCIETIES & ACTIVITIES**

- American Society of Safety Engineers - Past President ('97 – '98) of the Colonial Virginia Chapter, and 1998 Safety Professional of the Year in Virginia
- National Fire Protection Association – Member. Past member of the Technical Committee for Protection of Cultural Resources
- Society of Fire Protection Engineers - Member
- Fire Department Safety Officers Association - Member
- Virginia Department of Emergency Management – Reservist, Safety Officer, & Deputy Director - Infrastructure Support

**Managed Care Innovations, LLC**

316 West Broad Street  
Richmond, VA 23220

**Mary Y. Lamberth, Project Financial Analyst**

Phone/Fax: 804-344-0009 / 804-344-4443

**MLamberth@mcinnovations.com**

**Work History:**

**8/07 – present**

**Finance Manager and Analyst, Managed Care Innovations**

- Statistical analysis of MCI and team partner's key performance indicators for client savings, work flow efficiencies and contract compliance.
- Ad hoc statistical analysis.
- Assist in preparation and analysis of monthly, quarterly and annual performance reports to clients
- Procedure development.
- Responsible for all finance and accounting functions

**1998 - 2007**

**Account Executive, Sprint PCS**

- Successfully managed 28 national business accounts. Responsibilities included technical training, sales training, managing promotions, and creating sales incentives to drive additional business.
- Organized and participated in monthly and quarterly summits with District Managers and Regional Vice Presidents of National Retailers to discuss monthly and quarterly sales objectives and strategies.
- Succeeded in meeting and exceeding monthly sales quotas on consistent basis. Achieved Pinnacle Club status in the year 2000 and 2001 for exceeding annual sales goals by 140%. Member of the top performing team in the country.

**1991 – 1998**

**Project Analyst, Reynolds Metals Company**

- Restructured and streamlined accounting processes through organization of work force and implementation of new technology.
- Identified procedural problems in the flow of financial information as it affected the division and made recommendations for improvement.
- Created line of communication between operating divisions and the accounting department by providing the departments with specific information to meet their individual needs. Improved the content and presentation of financial reports to management.

**Credits:**

Certified Public Accountant

**Education:**

Meredith College, 1991,  
BS, Business Administration, Accounting Concentration

**2.5.4 The vendor must demonstrate its experience in structuring a Workers' Compensation program for at least one State government or other similarly sized project within the past five years.**

Vendor Response:

In 1998, MCI proposed in response to an RFP issued by the Commonwealth of Virginia for the workers' compensation program a unique service provider model. The design incorporated the General Contractor Model that MCI continues to use today. Two five year contracts have renewed since the original contract was issued. During this period, the program has received both local and National awards relating to public private partnerships.

The following are some keys to success for this program:

1. The overall program goals must include the objectives of superior service and control of total program cost.
2. Selection of team partners that have proven expertise in their respective areas, many times a local service provider.
3. Selection of a TPA that has some of the following attributes:
  - a. An advanced claims system that allows flexibility in customization to meet a large accounts unique needs.
  - b. A claims system that can be used by ancillary service providers so that there will be a common source of claim information to all users.
  - c. An absolute commitment to transparency. (A high premium is placed on self reporting of problems)
  - d. A system that holds employees accountable and rewards and penalizes based on the employees performance.
  - e. Adherence to the MCI policy of complete documentation of procedures.
  - f. A record of accommodating changing needs and changing technologies.
  - g. Use of imaging technologies which promote the sharing of information.
4. Adherence to audit standards and practices.
5. Procedure documentation for the entire program.
6. Monthly quality assurance meetings with detailed project tracking.
7. Training based on the Procedure Manual.
8. A policy for cooperative working relationships with non-owned service providers.

Over the past thirteen years of providing Total Program Management for the COV program, MCI has promoted numerous modifications to the program, changes designed to assure that our client continuously received a state of the art and best available program. With the endorsement and support of the COV, major modifications that were cost neutral in the program have occurred within a contract period. The most recent material change was to move away from telephonic case management and adopt a policy of intense referral to field medical and vocational case management. This change has contributed to a major reduction in loss time days. On Page 16 of this Attachment is a confidential internal study on the impact of shifting from telephonic case management to field case management services. While the results are very impressive, it is important to understand that these are preliminary results and more time must transpire to gain a complete assessment of the impact of this change. MCI, as an entity independent Total Program Manager, has no economic incentive to support an owned vender or process other than to assure that the service provided is the best available to the customer.

MCI's value to the client is to identify and implement new opportunities to improve the efficiency and results of our clients' programs. The nature of the contractual relationship that MCI has with the COV allows MCI, with the support of the COV, to modify programs by replacing subcontractors who do not perform to the level required or to replace entities whose services are no longer needed as better options have evolved. The Total Program Management model offers advantages over the traditional public entity procurement process through increased flexibility.

The COV account has been an exemplary public/private partnership allowing MCI latitude to question Industry "Best Practices" and move from the so called "tried and proven".. The following pages provide a report prepared by an undergraduate intern in the School of Risk Management at the University of Georgia working for MCI. The project was supervised by Bobby Cone in the summer of 2010. The project was to analyze MCI's shift from *telephonic case management* to *field case management*.

The report determines the impact on duration disability periods going from telephonic case management to field case management on lost time claims thirty-days after a lost time claim was reported to immediate assignment upon receipt of the lost claim to field case management. The results were dramatic and confirmed that telephonic case management where compared to the result of using field nurses to assist in managing cases was very ineffective. The ability of the TPA industry today to persist in the use of telephonic case management may best be explained in the two documents included in Attachment A on pages 18 and 21, the letter to Jamie Fohl in the State of Tennessee on Bundled Services and the *Business Insurance* Article published on January 17, 2011 entitled "TPA's Pay Deals Raise Concerns:

Managed Care Innovations (MCI)  
Mary Cate McCue  
July 22, 2010

## Disability Duration Study

### I. Introduction

**Purpose:** To determine the duration of disability resulting from three managed care models: telephonic case management; field case management initiated 30 days after notification of out of work; and field case management initiated upon notification of out of work.

**Overview:**

MCI, for the Commonwealth of Virginia (COV) Workers' Compensation Program, has used three different models for managing medical care delivered to the Commonwealth's injured employees.

1. Telephonic Case Management (TCM):

Registered nurses, upon notification of a lost time claim, immediately become involved in managing the medical services delivery to the injured worker. This requires the RN to speak with the treating physician, the employer representative, and the injured worker. The objectives are determining the treatment plan followed by the treating physician and promoting the achievement of the targeted return to work date. The treatment plan is compared to standard industry practices, and if necessary, the RN discusses the treatment plan with the treating physician. The Medical Director is enlisted to help if a mutually acceptable treatment plan cannot be created. The RN monitors the case telephonically to its conclusions. Variances from the treatment plan result in intervention in the management of the claim.

2. Field Case Management- initiated 30 days after notification of out of work (FCM<sub>30</sub>):

The Benefit Coordinator (claims adjuster) is responsible for the three-point contact: the treating physician; the employer representative; and the injured worker. Thirty days after the injured worker becomes disabled, the case is assigned to a field medical case manager (RN), where the case is aggressively managed to achieve an acceptable return to work resolution.

### 3. Field Case Management-initiated upon notification of out of work (FCM<sub>0</sub>):

The field case manager performs the same services as in FCM<sub>30</sub>, except claim assignment is immediately following the last day of work.

Managed Care Innovations manages the Commonwealth of Virginia's Workers' Compensation Program. The Commonwealth gives MCI latitude to make changes in the service delivery model throughout the contract period, subject to the condition the change must be approved and administratively cost neutral.

MCI, in managing the Commonwealth's program, used TCM as the medical managed care model from July 1998 to February 2008. During the TCM period, MCI recognized a deficiency in the approach; the medical case manager, at an all too frequent rate, was unable to establish effective telephonic communication with the treating physician, the injured worker, or the employer. As a result, material delays occurred—adversely impairing the success of the program. All too often, communications descended to the level of faxing and mailing documents. An effort to mitigate this problem involved the assignment of "task" field assignments, so that face-to-face communications could take place. While an improvement, the coordination problems associated with the approach prevented the TCM model from achieving the required level of success.

To offset TCM's inadequacy, MCI replaced the TCM model in February 2008 with assignment to field case management thirty days after the injured worker's last day of work. The change allowed for improved and timelier communications among the involved parties. The Benefit Coordinator managed the claim's medical component for the first 30 days.

On February 2009, MCI modified the program to allow FCM claim assignment immediately to all lost time cases. The change was made in recognition that the Benefit Coordinators faced the same communication limitations as TCM, compounded by their lack of specific medical knowledge. To offset the increase caseload and the cost neutral requirement of the Commonwealth, MCI increased management efforts to close files to FCM earlier than previously done.

## II. Methodology

To determine the days out of work, three equal time periods are used for TCM, FCM<sub>30</sub>, and FCM<sub>0</sub>.

- a. TCM: 2/2/06-2/1/07
- b. FCM<sub>30</sub>: 2/2/08-2/1/07
- c. FCM<sub>0</sub>: 2/2/09-2/1/10

For completing the data fields required, the period under review extends five months beyond the termination of the period used. The extension assures that no duration of disability estimates are biased by having varying periods for TCM, FCM<sub>30</sub>, and FCM<sub>0</sub>.



Visual of the dates:

TCM:

2/2/06                      2/1/07      6/30/07



FCM<sub>30</sub>:

2/2/08                      2/1/09      6/30/09



FCM<sub>0</sub>:

2/2/09                      2/1/10      6/30/10



This approach assures each sample is measured under identical conditions.

Qualified data contains open and closed lost time claims, including claims that are certified, pending certified, and partial certification.

Sample selection:

1. Due to the manner claims information is presented, a manual review was required to eliminate duplicates in the data population. The following shows the claim population size for each time period:

Population Data:

2006-2007	2008-2009	2009-2010
TCM	FCM <sub>30</sub>	FCM <sub>0</sub>
920	516	756

2. A non-stratified sample
  - a. A 25% sample size
  - b. Claims were ordered by date of injury and every fourth claim was selected for the sample.
  - c. By random selection, the sample selection began with the third claim.

Sample Data:

2006-2007	2008-2009	2009-2010
TCM	FCM <sub>30</sub>	FCM <sub>30</sub>
230	129	189

3. Determine the Last Day Worked immediately after the injury
4. Determine the earliest Date Returned to Work through either the Notes tab or the Quit Return tab
  - a. The earliest Date Returned to Work is selected because it achieves Return to Work status and does not consider recidivism.
  - b. To create the final Return to Work sample, the earliest date of the items listed is selected:
    - a. RTW Full Duty
    - b. RTW Modified Duty
    - c. RTW Permanent Light Duty
    - d. Modified Duty Refused
    - e. Physician's Release to Modified Duty
    - f. Physician's Release to Full Duty

### III. Limitations

The study contains limitations.

1. The coding of the data contains some inconsistencies, and reviewing the individual claim history manually addressed many of the inaccuracies.
2. The time frames used in the study cause limitations. The 2009-2010 (FCM<sub>0</sub>) time frame constrains the data because it is the starting point for working backwards. All data needs equal treatment.
3. The return to work date assumes the earliest return to work date available. In certain cases, the injured worker may have returned to a non-work status or there may have been no work available even though the treating physician had released the employee for work.
4. No differentiation is made between full and modified duty releases.
5. For cost savings, the Virginia Workers' Compensation Commission's weekly maximum compensation rate was used.

### IV. Results

Going from TCM to FCM<sub>30</sub> and then FCM<sub>0</sub>, the data shows a decline in mean days out of work for the selected medical management model. The mean declines from 37.0 days per claim in 2006-2007 (TCM) to 31.0 days per claim in 2008-2009 (FCM<sub>30</sub>). A further decline to 21.4 days per claim occurs in 2009-2010 (FCM<sub>0</sub>).

DATA SUMMARY AND RESULTS

	2006-2007 TCM	2008-2009 FCM <sub>30</sub>	2009-2010 FCM <sub>0</sub>
Population Size	920	516	756
Sample Size	230	129	189
Mean Lost Time Days	37.0	31.0	21.4

The selection of the measurement methodology, which truncates a certain number of open claims, likely causes the estimated lost days within the selected time interval to be overstated. However, there is a reason to believe that this measurement error is stable across the three periods. If so, the first differences should not be influenced by this measurement problem.

The chart SAVINGS FROM THE SHIFT FROM TCM TO FCM<sub>30</sub>, FCM<sub>30</sub> TO FCM<sub>0</sub>, AND TCM TO FCM<sub>0</sub> shows an increase in days saved and returning an injured worker to work. Between 2006-2007 (TCM) and 2008-2009 (FCM<sub>30</sub>), an average of 6.0 days per claim are saved. A decline in the mean of 16.2% occurs between 2006-2007 (TCM) and 2008-2009 (FCM<sub>30</sub>). Between 2008-2009 (FCM<sub>30</sub>) and 2009-2010 (FCM<sub>0</sub>), an average of 9.6 days per claim are saved. A decline in the mean of 31.0% occurs between 2008-2009 (FCM<sub>30</sub>) and 2009-2010 (FCM<sub>0</sub>). Overall from 2006-2007 (TCM) to 2009-2010 (FCM<sub>0</sub>), an average of 15.6 days per claim are saved. Overall from 2006-2007 (TCM) to 2009-2010 (FCM<sub>0</sub>), a decline in the mean of 42.2% occurs.

SAVINGS FROM THE SHIFT FROM TCM TO  
FCM<sub>30</sub>, FCM<sub>30</sub> TO FCM<sub>0</sub>, AND TCM TO FCM<sub>0</sub>

	2006-2007 (TCM) to 2008-2009 (FCM <sub>30</sub> )	2008-2009 (FCM <sub>30</sub> ) to 2009-2010 (FCM <sub>0</sub> )	2006-2007 (TCM) to 2009-2010 (FCM <sub>0</sub> )
Days saved per claim	6.0	9.6	15.6
Percent change in Average days saved per claim	-16.2%	-31.0%	-42.2%
Average Weekly Wage*	\$816.0	\$841.0	\$895.0
Average Daily Wage*	\$116.6	\$120.1	\$127.9
Dollars saved per claim**	\$699.6	\$1,153.0	\$1,995.2
Total dollars saved**	\$643,632.0	\$594,927.4	\$1,508,401.4

\*Maximum compensation rate is determined by the Virginia Workers' Compensation Commission

\*\*Procedure described below

Using the maximum compensation rate determined by the Virginia Workers' Compensation Commission, the average daily wage is calculated. From 2006-2007 (TCM) to 2008-2009 (FCM<sub>30</sub>) the average daily wage is \$163.20; from 2008-2009 (FCM<sub>30</sub>) to 2009-2010 (FCM<sub>0</sub>) the average daily wage is \$168.20; and from 2006-2007 (TCM) to 2009-2010 (FCM<sub>0</sub>) the average daily wage is \$179.0. By multiplying the average days saved per claim and the average daily wage, a dollar amount saved per claim is calculated. From 2006-2007 to 2008-2009, \$699.60 per claim are saved from implementing FCM<sub>30</sub> instead of TCM. From 2008-2009 to 2009-2010, \$1,153.0 per claim are saved by implementing FCM<sub>0</sub> instead of FCM<sub>30</sub>. Overall, \$1,995.2 per claim are saved from using FCM<sub>0</sub> instead of TCM. By multiplying the total number of claims for the time period, the average days saved per claim, and the average daily wage, a dollar amount saved is calculated. From 2006-2007 to 2008-2009, \$900,864.0 are saved from implementing FCM<sub>30</sub> instead of TCM. From 2008-2009 to 2009-2010, \$833,195.50 are saved from implementing FCM<sub>0</sub> instead of FCM<sub>30</sub>. Overall, \$2,111,054.40 is saved from using FCM<sub>0</sub> instead of TCM.

## **V. Conclusion**

The results from the Disability Duration project indicate the FCM<sub>0</sub> model is the most effective in achieving the accelerated return to work. The movement from TCM to either form of FCM is measurably improved and resulted in an increase in program savings in excess of \$2.1 million. This likely is a result of direct and accelerated communications between the involved parties. The improvement resulting from moving from FCM<sub>30</sub> to FCM<sub>0</sub> is likely a result of immediate involvement in a case, similar to industry recognition that claims reported earlier tend to provide the best opportunity for return to work. Though FCM<sub>0</sub> may contain higher front end cost, the savings from returning the worker quickly back to work are high.

Also, the direct involvement of the nurse in FCM<sub>0</sub> establishes an intimacy with the injured worker that is absent from TCM and delayed in TCM<sub>30</sub>. This intimacy hopefully motivates the injured worker to use "work as therapy" throughout their recovery, establishing also an advantage for the employer who saves money by having the return of their worker.

The project required the researcher to review file notes and history to assure data accuracy. The extensive nature of the review gave opportunity to observe the intensity level of involvement portrayed by the RN. Simply due to the higher case volume handled by a telephonic case manager, there is a large reduction in the opportunity for personal interaction with the injured worker. This no doubt contributed to the improved outcomes on FCM<sub>30</sub> and FCM<sub>0</sub>. The following is an example of what can be achieved through immediate interaction by field case management.

## **VI. Anecdotal comment from the researcher**

As files were reviewed for the Disability Duration project, a claim was reviewed for a Return to Work date. A brother of a worker was killed in a car accident the day before the worker's injury,

which threatened an extended delay not only in physical recovery for the certified claim, but also in the worker's emotional recovery. It is uncertain whether the injury was a result of the brother's death, but it can be imagined the death contributed to a loss of focus at the time of the injury. A dispatched field nurse quickly contacted the injured worker, hoping to personally console and recommend to the injured worker the "work as therapy" ideology. The nurse also organized an opportunity for emotional therapy during the worker's mourning period. Contact remained after the early return to work date, not simply focusing on the injured worker's physical state, but also on the worker's emotional recovery. Not only is the nurse's compassionate watch of the injured worker not present in the nurse's job description, it is greatly inhibited with TCM and delayed with FCM<sub>30</sub>. Maybe it was the quick dispatch, or maybe it was purely a good Samaritan, but I am assured that injured worker will never forget the helpful hand of a stranger.

Overall, FCM provides an improved opportunity to gain useful information that will assist in achieving timely return to work. Restrictions to telephonic communication introduce more intensive clerical activities to the telephonic case manager's duties. The lack of personal interaction may reduce TCM's effectiveness on the file.

**2.5.5 The vendor must demonstrate its experience in managing risk for a large deductible plan, or a self-insured plan, for a State government or other similarly sized project within the past five years.**

Vendor Response:

MCI holds the contract with the Commonwealth for the workers' compensation program. During the pre-RFP period, MCI interviewed companies that were being considered for inclusion on the MCI team. Collectively, the team under MCI's leadership, prepared a proposal in response to the COV's RFP. MCI prepared the Proposal and negotiated final contract terms with the COV.

Managed Care Innovations has served as the Total Program Manager for the Commonwealth of Virginia's workers compensation program for the past 12.5 years. The program is self-insured with no external risk financing. With approximately 120,000 covered lives under the workers' compensation program, the Commonwealth has determined that this population constitutes a legitimate risk pool and any outside sharing of risk would not be a cost effective transaction.

Shown on the next page is the MCI Model used to supply the COV with the administration of the self-insured program. Eleven companies serve as subcontractors to MCI and collectively serve as a team operating under the MCI name. MCI requires independence of the participating companies to avoid the issues referenced in Attachment A, Page 18, the letter to Mr. Jamie Fohl, Risk Manager for the State of Tennessee and the January Article in *Business Insurance* (Page 21) addressing the problems of TPA and vertical integration. The model also presents the staffing for the COV program. The program is located in a COV office, a decision that MCI endorses. Each MCI team partner maintains a non-dedicated staff in their home offices to support the infrastructure needs of the program. The introduction to Attachment A presents the financial results of this program as measured by the Commonwealth of Virginia.

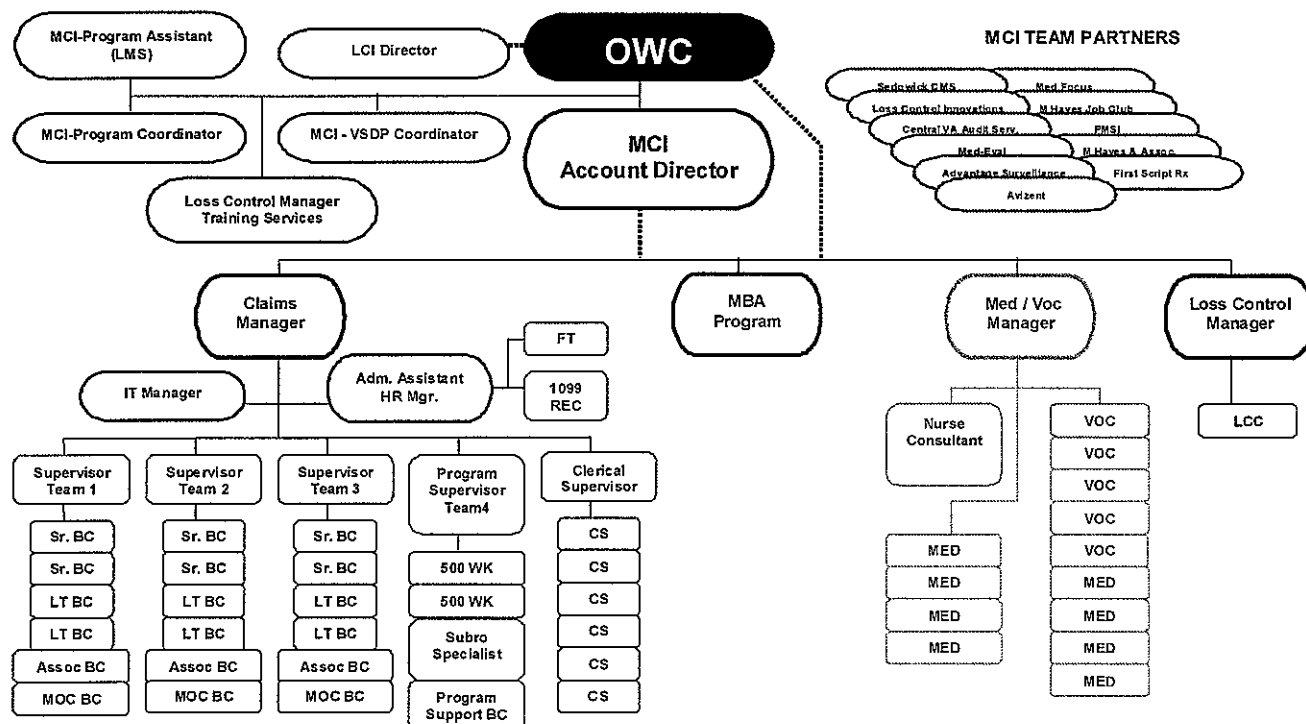
There are several key benefits to the MCI model of total program management. First, the COV is not required to be as involved in the day to day operations of the program and this allows the COV senior management to address issues that are more strategic in nature. MCI has a full time Account Director located on site in the COV claims office. Reporting to this position are the managers of the individual Team partners who in turn are responsible for their respective services. Second, with MCI having primary responsibility for the overall program management, this removes the obligation of the TPA to oversee the entire program and thereby allows the TPA's management efforts to focus on the TPA's service commitments. This is a lesson learned by the MCI Principals from the time they were responsible for a large regional TPA. Finally, the Model has given the time and opportunity for MCI and COV to concentrate on the evolving workers' compensation program, a true positive example of a Public-Private Partnership.

A single MCI Claims Procedure Manual has been created which covers all of the operations of the program. This document is critical to the successful operation of the program. It is encyclopedic in nature and serves as the training document for the entire program. The consistency and quality of this program is directly related to the thoroughness and adherence to this document. The Table of Contents is included on Page 36 in Attachment A.

The management of the program involves a multiple of quality assurance processes. Each team partner commits to performing a specified number of audits throughout the course of the year. MCI requires total disclosure of results of these audits. In addition, MCI will perform its own quality assessment reviews as deemed necessary. The COV Director of Workers'

Compensation Services, who is the COV's contract officer for this program, has a staff that supports the program and also performs quality assurance audits. All of this information is shared without restriction with MCI and the COV.

### THE MCI COMMONWEALTH OF VIRGINIA MODEL



REC- Receptionist / CS- Clerical Support / FT- Fiscal Technician / 500 WK- 500 Week Claims  
MOC- Med Only Compensable / Assoc BC- Associate BC / SR BC- Senior Benefit Coordinator / LT BC- Lost Time BC- Benefit Coordinator  
VOC- Vocational / MED- On Site Medical / LCC- Loss Control Consultant

The Claims Procedure Manual has been created which covers all of the operations of the program. This document is critical to the successful management and results of the program. It is encyclopedic in nature and serves as the training document for the entire program. The consistency and quality of this program is directly related to the thoroughness and adherence to this document. The Table of Contents is included in Attachment A on Page 36.

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MCI schedules monthly quality assurance meetings with the major team partners. A standing agenda is set to cover the repetitive items that must be monitored. In addition, a project sheet is maintained as a program of this magnitude is dynamic and must accommodate changes required by new information and new understanding. The project sheet is an important management tool that is used to keep projects on track.

Over the past 12.5 years, the evolution of this program has been significant. Material changes have been made within contract periods as well as with renewed contracts. The changes have involved the replacement of team partners that have not complied with the contract requirements, the elimination of services that became dated and the addition of new services that were not available at the beginning of the contract period.

The MCI Model represents the concept of the "virtual company".



***2.5.6 The vendor may provide other management consulting services related to this project for the OIC as needed. These additional services may include appearances by personnel of the consultant before legislative and executive bodies or others to respond to questions, give reports, and educate state agencies about the proposed risk management programs. These services may also include the preparation of written reports concerning risk management programs as deemed necessary by the OIC.***

In its role as the Total Program Manager for the COV Workers' Compensation Program, MCI has provided support services in all of these areas. In addition, Bobby Cone as the Economist for the Virginia Bureau of Insurance was the lead staff member for the Insurance Department in the NAIC's pioneering work on the treatment of investment income in the rate setting / approval process. In addition, he was a lead participant of the Re-Codification of the Virginia Insurance Title which required numerous presentations to Committees and Sub Committees of the Virginia General Assembly. Bobby has also served as an expert witness on numerous occasions before the Virginia Workers' Compensation Commission on statistical matters involving the application of the Virginia law regarding the payment of medical providers.

As part of the Total Program Services provided to the COV, MCI presents multiple training sessions to State Agencies throughout each year regarding the workers' compensation program. These training sessions involve such items as the overall program design and operations, responsibilities of the individual agency, training in workers' compensation, both basic and advanced and technical training on the operation of systems available to the COV agencies.

In Virginia, the COV's Workers' Compensation Services Division has orchestrated the development of several policies that have been implemented through a Governor's Executive Order. These EOs have been important in capturing the attention and compliance of State Agencies. The mandates included implementation of experience rating by State Agency, criteria for the prompt reporting of claims and Return to Work and Loss Prevention policy development and reporting. An effective Enterprise Risk management approach requires executive level sponsorship and MCI would encourage the support of the government leadership in bringing about this change.

**2.5.7 The vendor must identify and briefly describe either your ability to provide any of the following services by your firm, or by contracting the same with a third-party on behalf of your client:**

- 1. Insurance Policy Procurement / Marketplace knowledge and experience**
- 2. Claims Administration Services**
- 3. Establish risk pool participation and funding requirements for the Phase II program**
- 4. Loss Control Services**
- 5. Return to Work Programs**
- 6. Rating/Underwriting Evaluation/Consulting**

Vendor Response:

1. Insurance Policy Procurement / Marketplace knowledge and experience

MCI is not a licensed insurance broker and consequently cannot seek directly quotes for insurance policies that may be required to support or supplement the OIC's workers' compensation program. While MCI may be able to ask a broker (Marsh McLennan Companies) to provide a quote, this cannot be done if Marsh is excluded from bidding on the opportunity to serve as the broker for the OIC program. MCI suggest that the State of West Virginia may have an insurance broker as a consultant and if so, MCI is requesting that the brokers' services be made available to OIC for the information required by this program. If not, MCI will seek pro bono support for insurance quotes to be used in the analysis.

2. Claims Administration Services

While not a TPA, MCI is imminently knowledgeable of the operations of a TPA. In 1986, Bobby Cone managed the acquisition of a TPA by Anthem Blue Cross Blue Shield. For the following ten years, Bobby and Monty directed the alteration of the TPA's claims systems and claims procedures to accommodate the value added medical management services of Blue Cross Blue Shield to workers' compensation. During this period, a combined workers' compensation and group health product was created for self-insured clients, a product that grew in Virginia to cover over 150,000 lives.

With the COV account, MCI has pioneered new innovations such as dual tiered web based reporting system and directed the introduction of user friendly web based ad hoc reporting systems. This was immediately followed by the creation of what is today called push reporting designed to assure that clients received information useful in monitoring claim activity.

MCI has been a strong promoter of the use of the claims system to support and provide the claims adjusters the ability to self monitor their work activities. Based on specific parameters, the claims system should inform the adjusters that certain activities are required before the actual dates. Examples of this could be large loss reports (captioned reports). Perhaps the most important factor that MCI requires today are detailed Procedures which cover far more than the typical TPA's client service instructions. This is the key to a superior program for with thorough documentation, the client will receive what each claims adjuster honestly believes are industry best practices and the client is left with a heterogeneous combination of services. The OIC is well aware of this problem as it is frequently detected through market conduct studies.

MCI has no plans to become a TPA, but MCI will use its wealth of experience learned in this market to aid in the management of claims administration, whether it be as a Total Program Manager or an Enterprise Risk Management consultant supporting the OIC program.

### 3. Establish risk pool participation and funding requirements for the Phase II program

In responding to this RFP, MCI understands the need for covering multiple areas of subject expertise. While MCI brings a wealth of experience to the OIC, there are areas that require specialty. The two areas are 1) the actuarial analysis and application of statistical processes to data sets for the purpose of summarizing possible outcomes and their associated probabilities and 2) selection of markets for providing information on the options and cost of risk financing.

MCI understands that the OIC will provide its actuarial service contractor to provide needed information for this project. Additionally for the evaluation of insurance markets for risk financing MCI would anticipate the state will use their insurance broker for placement of any recommended coverage.

Should OIC be interested in exploring a total program experience incentive program for the contractor selected in Phase II, the state's actuarial consultant would play an important role in establishing the incentive / penalty model. MCI has understanding of the design of the model used by the COV for the MCI program.

### 4. Loss Control Services

While MCI provides loss prevention services to the COV through its operating division Loss Control Services (LCI), MCI will approach this RFP as an Enterprise Risk Management consultant rather than as a service provider. Loss prevention services will be evaluated and managed under the framework of total program management and not as direct provider of the service.

Jack Sullivan, the LCI managing partner, resume is included in this section B. for the COV program, LCI provides the resources for supporting the loss prevention program. In some cases, the Agencies have resources dedicated to safety (VDOT) and in this case, the LCI efforts are directed towards assisting the Agency based initiatives.

The programs typically have four key components. First, a survey of the Agency is done to form a snap shot view of the status of the program. The second step is to perform a benchmark survey which in essence summarizes where the employees believe the program resides. The third step requires the formation of policies to address the shortcomings addressed in the second step and to introduce remedial actions. Once this is completed, the fourth step is a recurring cycle of reassessment and retraining.

LCI provided loss prevention consulting and training specific to Montgomery County (MD) Fire & Rescue Services (MCFRS). A consultant performed a comprehensive evaluation and analysis of existing safety programs and worker injury history, developed a long-range loss prevention plan, prepared and delivered a series of loss prevention and safety leadership training workshops for 240 MCFRS management personnel and helped the County realize a decrease in worker injuries and associated costs. On March 20, 2008 LCI, MCFRS and the Montgomery County Risk Management Division were recognized with a *Partnership Award* at the Montgomery Best Awards ceremony for the programs and activities designed

to reduce the number and associated cost of employee injury claims in Fire and Rescue Services.

As a result of these efforts, for fiscal year 2006, MCFRS experienced a reduction of 13.7% in the number of injuries reported and more significantly, a reduction in overall costs of 20% percent associated with the lost time injuries.

Unfortunately, the reality is that loss prevention programs for public entities are the last to receive funding and the first to lose financial resources. Consequently, the responsibility for the program is typically an "add on" to an employees already full schedule. Therefore, the key to a successful loss prevention program is a management commitment to reducing losses and this is achieved by holding employees assigned this task accountable for results. This is likely to mean additional staff is required. Consideration should be given to assuring the OIC program has a strong program to support loss prevention, a service covered by the program rather than the agency.

In the early development of the program, consideration may be given to using the previously discussed incentive program to partially fund additional loss prevention efforts. Those agencies that are successful in driving cost down may be partially awarded through additional resources provided through OIC.

The most effective method for controlling cost is to prevent the accident / illness. A side benefit from this is that an effective occupational loss prevention program is likely to have a "coat tail" effect on non-occupational injuries and diseases. To the degree that non-occupational injuries can be diminished improves the quality of the total work environment, a desirable public policy outcome.

##### 5. Return to Work Programs

While Return to Work (RTW) is an obvious goal of the claims management process, achieving effective results requires effective coordination between the injured worker, the employer, the claims and medical management staff and the treating physician. Structural limitations can also side track RTW efforts and these include such items as medical providers who are accustomed by the practice of the employee benefit side to ignore the opportunity cost of the injured worker being out of work (i.e. defer medical treatment in the hope of natural recovery) or a reluctance on the part of an employee's supervisor to accept the injured worker's return to work under modified duty as this becomes an additional management burden requiring additional effort to create modified duty opportunities.

From the claims and medical management staff view, it is essential that properly developed job descriptions are on file. These descriptions can be shared through consultation with the treating physician for the purpose of determining acceptable modifications to the job description.

Also relating to job descriptions is an initiative involving the employer (state agency) where prior to the event of an occupational injury, discussions are held to determine modified duty variations from the standard job descriptions. This could involve alteration of such items as lifting, standing or sitting restrictions that can be applied to accommodate the injured worker under modified duty situations. The availability of modified duty is an important factor in discussing an injured worker's claim with the treating physician for the purpose of gaining a release to work.

Once the pieces of the RTW program are in place, documentation of procedures and training is required of the claims and medical staff as well as the state agencies. Consideration should be given to providing a training session for frequently used medical providers to improve their awareness of the RTW opportunities.

Once in place, an ongoing program of monitoring compliance, measuring results and responding to variances in practice from the established standard is required. This will require periodic visits to the state agencies for training and review. The documentation of the RTW program for the claims and medical staff will also be required for training, monitoring and retraining as indicated by the reviews.

The basic program described above is used by MCI for the COV RTW program. The results have been impressive with an overall RTW rate of over 99% to same employer and same job.

#### 6. Rating/Underwriting Evaluation/Consulting

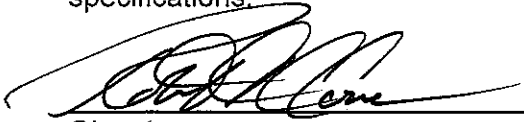
Rating / Underwriting are economically key components for providing incentives to promote behavior that will assist in controlling program cost. The following is offered without an understanding of the limitations the State of West Virginia may place on the worker's compensation programs for its Agencies.

MCI would look to the OIC's actuary for the analysis of loss information and providing projections for loss cost and the required premium for supporting a financially solid program. An important rating option will be the use of retrospective or prospective methodologies. Retrospective experienced rating can be applied on a payroll basis using the experience of the entire pool. The performance of the entire risk pool (WV) can then be blended with the individual agency experience to develop a blended rate for the pool member. This can be weighted in favor of the individual agency which will increase / decrease the agency's reward / penalty associated with their respective performance. The weight can be shifted in favor of the pool which will reduce the premium volatility associated with the agencies risk exposure. If the payment of the award is not be subject to the State's oversight and budgeting process, the Agency would have additional discretionary resources to be used as the Agency determines appropriate. As these benefits are paid after the fact, the program is less likely to experience a shortfall that would have to be borne by the State. However, the State assumes the risk of the experienced medication process if the expected cost reduction benefits are not achieved.

Additionally, a prospective rating methodology can be employed to produce incentives to enhance program performance. For example, a scheduled rating plan can be planned which will grant the Agency discounts on premium based upon the completion of certain tasks. An example would be a drug testing program which if followed as OIC prescribes, could result in a premium reduction of a stated percentage. Any type of experience rating adjustment requires a thorough review with the Agency as this is a form of possibly shifting poor experience back onto the risk pool if the activity does not reduce claims cost. Linked to the Loss Prevention Program and with a properly informed Agency, the Agency can alter its behavior and be a direct benefactor of the subsequent decrease in loss costs.

The Commonwealth of Virginia uses experience rating applied to the Agency. The movement to this process was difficult as the transition caused some material increases in premiums to select Agencies. For MCI's benefits, these rate increases had a marked impact on the support MCI received for its program.

I certify that the proposal submitted meets or exceeds all the mandatory specifications of this Request for Proposal. Additionally, I agree to provide any additional documentation deemed necessary by the State of West Virginia to demonstrate compliance with said mandatory specifications.

  
Signature

Robert T. C. Cone

Position: Principal

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Managed Care Innovations, LLC

February 8, 2011