STATE OF WISCONSIN

Department of Employee Trust Funds

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PROGRESS REPORT
Office of Private Employer Health Care Coverage

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Administrators Decline to Propose

On November 13, the Office of Private Employer Health Care Coverage issued a Request for Proposals (RFP) for administrative and marketing services for the Private Employer Health Care Coverage Program. Despite indications from prospective vendors that the RFP would attract interest, the proposal deadline has passed, and no proposals have been received. With this setback it is clear that coverage will not be available through the Program by the effective date set by the Legislature.

Next Steps

In developing the RFP, the Office sought both formal and informal input from potential administrators and other state agencies. Office staff also worked closely with the Institute for Health Policy Solutions, a consulting firm with considerable experience advising employee-choice purchasing programs in other states. Since the proposal submission deadline, Office staff have solicited feedback from potential administrators to identify barriers to their participation. The attached "Potential Vendor Feedback Regarding RFP# ETA0006" provides detailed comments from potential vendors. To summarize, their primary concerns include:

Health Plan Contracting: According to s. 40.98 (2) (a) 3., Wis. Stats., the administrator is required to contract with health plans to offer coverage under the program. Vendors expressed reservations about committing resources without a better understanding of health plan interest. In one vendor's words, "All of the cost and all of the risk of getting the program up and running [is placed] on the administrator." Another vendor opined, "The State would be in the best negotiating position since [Wisconsin health insurers] currently insure State employees."

Funding and Commitment: Several vendors questioned the State's commitment to the program, indicating that existing appropriations and position authorizations greatly underestimate the resources necessary to launch such a program statewide. According to one vendor, "The program is under-funded and has strong performance expectations from the Legislature. We [are] fearful that we would spend a lot of time, effort and money and either not get health plan buy in or not get continued funding."

Underlying Market Dynamics: Similar employee-choice programs have been successful in states with considerably tighter restrictions on the rates health insurers may charge small

> businesses. Wisconsin's broader "rate bands" complicate the administration of such a program. "It seems you've got a conflicting situation," said one potential administrator. "On the one hand [the Legislature wants] an employee-choice program, but on the other hand, there's such a wide corridor of acceptable rating, that makes it very, very difficult for health plans/carriers to be comfortable and therefore difficult for an administrator to be able to bring health plans in…"

Vendor feedback will be used to determine how to restructure the RFP to obtain the services of a qualified administrative vendor, if possible. Specifically, can the RFP or Program expectations be modified sufficiently within current statutory requirements to encourage competitive proposals? Or will it be necessary to submit to the Legislature a request for additional funding for the administrator and/or proposed statutory changes to the Program's underlying design? The Department will carefully evaluate how to proceed in developing an actuarially sound program with coverage available as soon as possible.

Progress Reports Will Continue

The Office of Private Employer Health Care Coverage will continue to provide periodic e-mail updates. If you or your staff have further questions, please feel free to contact the Office staff identified at the top of this update or Pam Henning, Employee Trust Funds Director of Legislation and Planning, at 608-267-2929.

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POTENTIAL VENDOR FEEDBACK
REGARDING RFP# ETA0006
Administration and Marketing of the
Private Employer Health Care Purchasing Alliance
December 2000

Contrary to expectations, the Department received no proposals in response to RFP# ETA0006. Since the proposal deadline, staff have contacted vendors from whom the Department had expected to receive proposals or who had expressed interest in the procurement process at some point. Each vendor was asked to identify barriers to their participation. Their responses are presented much as they were conveyed to staff.

Vendor A

"The main reason was having to negotiate with the respective carriers for each county(s). As a TPA we would have no negotiating power to bring these carriers to the table. It was our thought that the State would be in the best negotiating position since these carriers currently insure State employees. Honestly, it was not worth our time to start from the ground up."

In an earlier telephone conversation, Vendor A wondered why carriers already participating in the State employees' program wouldn't be required to participate in the PEHCCP.

"Also, the RFP called for the TPA to be responsible for underwriting. I think that the carriers would retain that responsibility.

"Lastly, the timing of what you were trying to get done was very aggressive, especially at calendar year end, that is our busiest time of the year."

Vendor B

"The concern we had with the RFP was that it placed all of the cost and all of the risk of getting the program up and running on the administrator. In addition, the program is under funded and has strong performance expectations from the legislature. We were fearful that we would spend a lot of time, effort and money and either not get health plan buy in or not get continued funding. In short, the risk was just too great."

In two telephone conversations, representatives of Vendor B indicated: (1) Part of their reluctance is due to the timing: Have taken on a lot of new business recently and are focusing on serving those customers well. (2) They are also concerned about the considerable responsibility placed on the administrator for "gathering health plans." Didn't get a good sense from the RFP of health plan interest. Anticipate health plan contracting tasks would require placing a full-time staff person in Wisconsin. No provision to pay for that person until/unless the program is successful. Would help if administrator were paid up front for those costs. (3) Concerned about funding in general: Not enough for Department staff, let alone to cover marketing, broker relations, etc. "A couple million" dollars would be more realistic. (Spent almost $2 million in New York City and $11 million in Florida.) Suggested modifying contract so financial risk to the administrator is limited: The State should either pay up-front health plan contracting costs directly or "get it up and running" and sent out an RFP just for traditional administrative services.

Vendor C

In a telephone conversation, Vendor C identified three main reasons for not submitting a proposal: (1) Looked like California vendors seemed well-positioned: understood the market, benefits and risks, and seemed interested (sent representatives all the way here for the procurement briefing). (2) Contract term is too short to amortize up-front costs (mentioned 10 years as reasonable). Would need longer contract or reimbursement for implementation costs. (3) Turn-around for submitting proposals was too short. If re-issued, put bidder's conference back in, so vendors can get quick verbal answers to questions to facilitate speedy response. Busy time of year, too.

Vendor D

Transcribed voicemail message from Vendor D:

"We took two steps in the direction that we were considering it, looked at the RFP, and it really doesn't fit into our long-range strategic plan to pursue it at this point."

Vendor E

In a telephone conversation, Vendor E relayed the corporate office's position: They don't want to expend resources in that direction right now. They know from experience it takes five years to get a project like this up and running, that any growth projections at this point are "sheer guess," that short-term (start-up) spending is risky, and there's a mismatch between expenditures by month and income by month. In a follow-up call, Vendor E relayed the corporate office's concern about what they interpreted as a "completeness bond," holding the administrator at risk for program success. [Author's note: The performance bond required by the RFP is to secure contractor performance of specific tasks, not to ensure success of the program. This should be clarified in a future RFP.] Vendor E also shared that various internal issues made the financial risks associated with this project unattractive.

Vendor F

Transcribed voicemail message from Vendor F:

"I don't want to minimize the genuineness of the fact that we have lots of work on our plates. But we will take on other projects when we think they have a stronger likelihood of success than the projects we've already prioritized. With your +/- 30 % [rate bands], we do not think that creates a conducive environment for an employee-choice program. It opens up huge selection issues. Frankly, we think this would be a stumbling block to get health plans/carriers to want to play.

"Is the legislature looking at small group underwriting reform? It seems you've got a conflicting situation: On the one hand, they want an employee-choice program, but on the other hand, there's such a wide corridor of acceptable rating, that makes it very, very difficult for health plans/carriers to be comfortable and therefore difficult for an administrator to be able to bring health plans in and to run the program once it's up and going, on a profitable basis.

"I also don't see clearly how we would get paid. We have invested literally millions in building our program and it would cost a fair amount of money to adapt our program. And frankly, for us to make that effort, we would want to be compensated for the investment we've made in systems. I don't see how, as an outside vendor, we'd be compensated for our time in building a program—we'd be compensated if the program proved to be successful, but I didn't see any guarantee that if it were successful that we'd be able to get our money back in subsequent years and not have another administrator walk in.

"For us to work on an outside program, we need to know that it would have a good chance of success, in a positive environment, that we'd be compensated whether it worked or not, otherwise, how can we make a business decision to do otherwise?"

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