



State of Wisconsin  
Department of Employee Trust Funds  
Robert J. Conlin  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax 608-267-4549  
etf.wi.gov

## Correspondence Memorandum

**Date:** January 15, 2017  
**To:** Group Insurance Board  
**From:** Deb Roemer, Benefit Services Bureau Director  
**Subject:** Aetna Contract Amendment and Extension

**ETF requests the Group Insurance Board (Board) amend the current administrative services contract with Aetna Life Insurance Company (Aetna) to add two additional one-year contract extensions and exercise one of those options to extend the contract with Aetna for an additional one-year period. This action would extend the contract from January 1, 2018 through December 31, 2018.**

### Background

Aetna provides administrative services for the Income Continuation Insurance (ICI) and the Long-Term Disability Insurance (LTDI) programs for the Department of Employee Trust Funds (ETF). Aetna was awarded the contract in December 2008 with a five-year term from January 1, 2009, through December 31, 2013, and options for two two-year extensions. The Board elected to exercise each of the two-year extensions; the final extension is scheduled to end December 31, 2017.

Aetna was the only bidder for the administrative services contract during the RFP process in 2008. Aetna bought the previous administrative services contract holder, Broadspire; Broadspire purchased Core, the previous ICI/LTDI administrator. As a result, a number of key Aetna staff assigned to the ICI/LTDI contract have been working with the plans for well over a decade.

Aetna has consistently met or exceeded the performance standards set forth in the contract. Such performance standards include:

- Answering 90% of incoming calls within 60 seconds, with an abandoned call rate of 5% or less.
- Sending written notice of approval/denial of claims and "Evidence of Insurability" applications within 15 days from receipt of all information needed to make a determination.
- Sending written notice of determinations on claim reconsideration requests within 90 days from receipt of all information needed to make a determination.

Reviewed and approved by David Nispel, General Counsel, Legal Services

Electronically Signed 1/26/17

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The primary reason for this request is to avoid adding unnecessary administrative complexity to the program while the Benefit Services Bureau (BSB) continues its work to transition from one ICI plan to another (see below). As this effort reaches its peak, issuing a new RFP in 2017 would become problematic in its timing and hamper efforts to provide for a seamless transition.

### **Disability Programs Redesign**

In 2012, the ETF Disability Programs Section began a comprehensive review of the disability programs offered by ETF. The goal of this review was to identify any inefficiencies or structural issues and develop responses that would make administration of (and participation in) the disability programs less complicated and confusing. The first step in this review resulted in technical revisions to the ICI program, which were accomplished in 2013. The second phase of this review examined ways to streamline and reduce the number of duplicative programs. The result of this review was the elimination of the LTDI program by the Employee Trust Funds Board in September 2016 and the current recommendation before the Group Insurance Board for significant changes to the ICI program that is currently before the Board. Both of these programs are administered by Aetna.

The closure of the LTDI program to new claims is scheduled to occur on January 1, 2018. The administrative rule process for closure of the LTDI program will be ongoing throughout 2017. Developing a new RFP at the same time would require inclusion of LTDI program administration as a contingency, in the event that the rule is not approved or is delayed. Obtaining bids for the administrative services contract has been problematic in the past because of the unique design of the LTDI program, which is not standard in the industry. Extending the current contract with Aetna would provide a bridge over the transition period and permit ETF to develop an RFP in 2018 or 2019 after the LTDI program status has been finalized. If the LTDI program is closed as planned, the resulting RFP will be for ICI plan administration only and is expected to generate more competitive bids.

In addition, rebidding the current administrative services contract during this time will be more difficult, due to the development of the redesigned ICI program occurring in 2017— when the new contract bidding process would need to occur. While it would be possible to execute a contract, there would likely be additional costs involved with retaining a new contractor to administer claims under the current ICI plan while assisting with ETF to fashion and incorporate a redesigned plan.

Advantages of extending the current contract with Aetna include:

- Consistent administration of the current ICI program while developing a restructured program.
- Continued member access to an experienced customer service team.

- Ability to focus more staff resources on development and implementation of disability program initiatives instead of on development of an RFP and possibly onboarding a new third-party administrator.

### **Proposal**

ETF recommends the Board amend the current contract with Aetna to include two additional one-year extensions and also exercise the first one-year extension option to extend the current contract from January 1, 2018, through December 31, 2018.

Aetna has been a strong partner with ETF in the administration of the ICI and LTDI programs; staff have are very knowledgeable about the LTDI program and are proficient in its operation. The Board would be best served by having Aetna run out the LTDI claims process instead of contracting with a new vendor.

No changes to Aetna's current fee structure will result from this proposal. Per the current contract, Aetna's administrative fee is adjusted annually to reflect changes in the average annual change in the Consumer Price Index for all urban consumers (CPI-U). While it is not possible to know at this time what the CPI-U changes will be for 2018 or 2019, the adjustment in 2016 was 0.1% and the adjustment for 2017 will be 1.3%.

Extending Aetna's current contract with ETF through 2018 along with an option to extend through 2019 would provide stability to the administration of the current ICI plan while the new plan model is in development. If the new model is approved, a revised ICI administrative support contract can be bid out without forcing a new administrator to make expensive system changes mid-stream.

### **Alternatives**

Option 1 – Amend the current contract with Aetna to include one two-year extension option and also exercise the option, which would extend the current contract from January 1, 2018 through December 31, 2019.

Option 2 – Reject the proposal and require ETF to issue a new RFP for administrative services in beginning on January 1, 2018.

Staff will be at the Board meeting to answer any questions.