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Correspondence Memorandum

Date: January 2, 2020

To: Group Insurance Board

From: Rachel Carabell, Senior Health Policy Advisor
 Office of Strategic Health Policy

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Subject: IBM Watson Health Contract Options

The Department of Employee Trust Funds (ETF) requests the Group Insurance Board (Board) direct ETF to pursue a ten-year contract extension with IBM Watson Health for data warehouse services effective January 1, 2023.

At the November 13, 2019 meeting, the Board approved extending the current IBM Watson Health contract through December 31, 2022 for a data warehouse and business intelligence tools. This contract extension was the last remaining extension available under the current contract. At that time, ETF indicated it would bring back to the Board at the February 2020 meeting, options for contracting for data warehouse and business intelligence tools starting in 2023.

If the Board wants the future contract to be procured through a Request For Proposal (RFP), ETF believes it is prudent to decide at this time on the future contract approach, due to the necessary timelines. However, under Chapter 40 of the Wisconsin Statutes, the Board has significant flexibility for procuring services following the expiration of the current contract with IBM at the end of 2022. Options for consideration include:

- Request-for-Proposal: Issue an RFP in 2020 to allow for a competitive process to determine if IBM continues to be the best vendor
- Two-year extension: Continue extending the current IBM contract for an additional two-year period
- Ten-year extension: Extend the current IBM contract for a 10-year period

Reviewed and approved by Eileen K Mallow, Director, Office of Strategic Health Policy Electronically Signed 1/15/20
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- Evergreen contract: Negotiate an evergreen contract with IBM where the contract continues indefinitely unless either party notifies the other of an intent to terminate

These options are discussed below.

Background

ETF launched its data warehouse in 2017, implementing recommendations contained in Segal's 2015 benefit consultants' report. In 2016, ETF released an RFP for a data warehouse and visual business intelligence tools. The Board awarded the contract to Truven Health Analytics, LLC. (Truven) because it was the highest scoring and lowest cost vendor of those that responded to the RFP. The initial contract was effective from March 1, 2017 through December 31, 2018. Truven was purchased by International Business Machines, Inc. (IBM) in 2016, and starting August 1, 2018, officially became IBM Watson Health.

Current IBM Contract

ETF refers to the IBM-administered data warehouse and business intelligence tools as the Data, Analytics and InSights (DAISI) tools. DAISI includes medical, pharmacy and dental claims data for the State's Group Health Insurance Program (GHIP) and the Wisconsin Public Employer (WPE) program as well as wellness data submitted by the program's wellness administrator, StayWell. This data is submitted directly to IBM from program vendors. In addition, ETF sends member demographic and enrollment data to IBM. ETF continues to refine the data available to perform analytics. For example, in December 2019, the Area Deprivation Index was added, and ETF is working to import data from the Wisconsin Immunization Registry (WIR) in the near future.

Contract Costs

Through December 2019, ETF has spent approximately \$1.7 million on the IBM contract. Implementation costs totaled approximately \$975,000 of that amount. In 2020, ETF will spend approximately \$386,000 in operational costs, increasing to \$408,000 in 2022. Operational costs do not include expenses that will be approved as one-time charges, such as adding new data sources or data submitters, file format changes, or when a data submitter resubmits historical data to correct an error.

Implementation

DAISI implementation occurred from March 1, 2017 through August 2018 and was fully operational starting in September 2018. The initial implementation was projected to take 12 months. However, the complexity of working with so many data submitters resulted in an 18-month implementation. Activity that took longer than anticipated included negotiating data sharing agreements, agreeing on a standard file format to be used by the health plans, and the data submitters' efforts to provide the required information in the required format.

Current DAISI Uses

Since moving into operations, ETF has used DAISI to:

- Develop the quarterly dashboards that are regularly shared with the Board ([Ref. GIB | 8.21.19 | Item 10E](#))
- Provide data for the Group Health Benefits Annual Report, which was first shared with the Board at its May 2019 meeting ([Ref. GIB | 5.15.19 | Item 6A](#))
- Inform the Board's benefit decisions for 2020 by providing data for Board memos and presentations ([Ref. GIB | 5.15.19 | Item 8C](#))
- Perform a provider access analysis, particularly regarding the recent termination of Security Health Plan from the program
- Conduct a preliminary return on investment (ROI) for the Healthy Wisconsin program administered by StayWell, which was shared with the Board at its May meeting ([Ref. GIB | 5.15.19 | Item 7C](#))

Starting in 2020, ETF hopes Segal will be able to use DAISI to support the annual rate setting process and ETF will be able to discontinue the separate data submissions that health plans currently submit directly to Segal. ETF and the health plans are currently validating the data in DAISI compared to the data submitted directly to Segal, which will inform any decisions on using DAISI for rate-setting.

Procurement Options

Request-for-Proposal

ETF would develop an RFP in early 2020 with a scheduled release in November 2020 and an anticipated contract start date of July 1, 2021. Full implementation would begin no later than January 1, 2023. Under this timeline, if the Board awarded a contract to a vendor other than IBM, ETF should have adequate time to negotiate data sharing agreements, secure historical data and fully test a new data warehouse by January 1, 2023, prior to the termination of the IBM contract.

The overlapping contract periods are critical to ensure ETF and the Board do not experience a dark period if another vendor is selected. If ETF and the Board experience a dark period, without access to data while the new data warehouse is in the implementation process, it could jeopardize the Board's rate-setting timelines. ETF's analytic capabilities are relatively new and still maturing. Implementing a new vendor would divert a significant portion of analytic resources away from fulfilling ETF and the Board's needs and curtail ETF's developing analytic maturity.

Given the costs and risks of switching to a new vendor, this option is only reasonable if the Board has significant concerns about IBM's products and services, or if it believes that lower-cost or better options might be available from IBM's competitors and should be considered in the short term. However, during the initial RFP, of the five proposals submitted, only two were determined to meet ETF's needs and the Truven proposal was

more price competitive. Further, any lower cost options would have to be significantly lower to offset the increased costs of another implementation.

Finally, ETF is satisfied with IBM and the tools they provide to meet analytic needs. A recent third-party audit of IBM found no critical or high-risk data security or data quality issues that needed to be addressed.

Two-Year Extension

Under this option, the Board could extend the current contract for an additional two-year period, from January 1, 2023 through December 31, 2024. This approach would continue the practice established under the current contract. The Board and IBM would have to come to financial terms under such an extension, since the current financial terms do not extend past 2022. This option provides the Board with significant flexibility that may be warranted if the Board is not confident that IBM's products or services meet its needs or about the ongoing costs of operations.

However, because ETF is satisfied with IBM as a partner and the substantial cost of another implementation, the Board may wish to establish a longer-term contract.

Ten-Year Extension

Under this option, the Board could extend the current contract for a ten-year period, from January 1, 2023 through December 31, 2032. The Board and IBM would have to come to financial terms under such a contract, since the current financial terms do not extend past 2022.

This option reflects the nature of a data warehouse, where implementation timelines and costs require a significant upfront investment. Further, a ten-year review and update of the contract is appropriate given likely changes in technology and the market over such a time period.

Evergreen Contract

Under this option, the Board would convert the current IBM contract to an evergreen contract, meaning it would automatically renew unless either party notifies the other that it intends to terminate the contract with 180 days' notice. Under such a contract, ETF would do an annual review of IBM's performance and payments would be contingent on ETF's continued satisfaction with IBM as a partner.

ETF has several evergreen contracts, including its contract with The Segal Company for consulting actuary services for Wisconsin health insurance programs, the Wisconsin retirement system consulting actuary, the group insurance and disability program consulting actuary, and contract compliance audit contracts.

This option also reflects the nature of a data warehouse contract, where implementation timelines and costs require a significant investment upfront. This option does not prevent future reviews of technology and market conditions, which could result in a

future RFP. But the timeline for a review would not be tied to the timeline of the contract with IBM. Further, the timeline for a review would not be tied to the 180 days' notice for termination that would be required under this option.

Recommendation

ETF recommends the Board approve ETF pursuing a ten-year contract with IBM. ETF believes the cost of another implementation with a different vendor outweighs any benefit of switching to another vendor in the short term. Further, there is no indication the market has changed enough that another RFP would result in the selection of another vendor. A long-term renewal would still provide the Board with options should the vendor's performance deteriorate. Finally, ETF's use of the current IBM products and services is relatively new, and ETF's analytic capabilities are still maturing. Another implementation would divert time from ETF's analytic resources and could set ETF's developing analytic maturity back significantly as well as jeopardize the use of DAISI for rate-setting purposes.

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