

MILWAUKEE COUNTY
INTEROFFICE COMMUNICATION

DATE: August 28, 2014

TO: Supervisor Marina Dimitrijevic, Chairwoman, Milwaukee County Board of Supervisors
Supervisor Willie Johnson Jr., Co-Chair, Committee on Finance, Personnel and Audit
Supervisor David Cullen, Co-Chair, Committee on Finance, Personnel and Audit

FROM: Amy Pechacek, Director of Risk Management

SUBJECT: Third Party Administration of Milwaukee County's Workers' Compensation Program.

REQUEST

The Director of the Department of Administrative Services Risk Management Division is recommending a contract award to the Wisconsin County Mutual Insurance Corporation for the Third Party Administration of Milwaukee County's Workers' Compensation program.

BACKGROUND

Milwaukee County currently self-administers workers' compensation claims and has since approximately 1959. Over the past five years, the County has experienced an average of 614 workers' compensation claims per year, with \$4.5 million in average annual workers' compensation claim expenditures. Two positions in Risk Management handle the internal claims administration function; the Workers' Compensation Claims Examiner and the Workers' Compensation Claims Adjuster.

In 2012, an external claims audit (Exhibit A) was performed on the quality of workers' compensation claims administration at Milwaukee County. The audit focused on industry standard claims handling competency metrics, including medical management, documentation, investigations, subrogation, and file supervision. The summary findings concluded that the County's overall score was 54%, with "no file" receiving a grade over

80%. The auditors also concluded the County was losing between 10 – 15% annually in claim expenditures due to “leakage” in medical and other related benefits (Milwaukee County Claim Audit, 2012, p.3), resulting in annual losses ranging from \$450,000 - \$675,000.

The Wisconsin Department of Workforce Development (DWD) is the jurisdictional authority for the Wisconsin Workers’ Compensation Act; the state law mandating employers provide workers’ compensation coverage for all employees. The DWD ensures employers also meet minimum standards for reporting and complying with State regulations. In September of 2013, the State cited Milwaukee County for non-compliance with Wisconsin State Statute 80.03(3)(b), State Reporting (Exhibit B). A corrective action plan was implemented and fines were imposed.

The decision to move claims handling to a Third Party Administration (TPA) model was introduced at this time. The 2014 Adopted Budget for Milwaukee County includes \$250,000 for a TPA to manage the County’s workers’ compensation program. The two Risk Management claims handling positions were unfunded as of January but will remain filled until final approval of the selected TPA vendor.

OPERATIONAL ANALYSIS

Only two counties in the State of Wisconsin currently follow the self-administration model, Milwaukee County and Marathon County. The other 70 counties in the state have transitioned to the TPA model, which is the best practices approach to claims handling per insurance industry standards.

Milwaukee County is currently operating a paper based claims administration practice, which includes mailing, faxing, and other various manual processes, including the payment of an average of 106 individual medical bills weekly via manual data entry into two separate tracking and financial systems. There is some utilization of a Risk Management Information System (RMIS) software program that generates claim numbers and houses electronic notes, as well as multiple ancillary contracts in place to meet claims needs such as medical bill review and the Federal Center for Medicare Services Section’s 111 mandatory reporting.

The TPA model provides efficiencies and automation in all steps of the claims handling process, including (Exhibit C) injury reporting, first contact / investigations, state reporting (DWD / DOL), claim adjusting, bill

payment, federal reporting (CMS / OSHA), subrogation, and data analytics.

In addition to substantial achievements in timeliness, automation, and compliance, the TPA model affords the additional benefits:

- Reduction of payroll staff hours (40 hour per week current employee commitment)
- Conflict removal / transparency
- Employee customer service
- Comprehensive workplace training programs

VENDOR SELECTION

The TPA Request for Proposals was issued on April 22, 2014. A proposers' meeting was held on May 5, 2014, and the deadline for proposals was May 30, 2014. The panelists' individual assessment scores were due on June 2, 2014. Wisconsin County Mutual Insurance Corporation (WCMIC) was awarded the highest overall score from the panel of reviewers. The top five scoring proposers were invited back for final interviews the first week of August. After the interviews, WCMIC remained the lead candidate for the panelists.

WCMIC was formed in 1988 and is member owned and operated. WCMIC currently boasts a membership portfolio that includes 52 of Wisconsin's 72 counties, and provides services exclusively to Wisconsin public entities; including counties, municipalities, and schools. WCMIC has a seventeen year relationship with the County through the administration of Milwaukee County's Public Entity Liability program. In addition to WCMIC's comprehensive organizational understanding of Milwaukee County through this relationship, their proposal offered abundant value added services including nurse care line, loss control functions, safety training, transitional duty programs for employees in partnership with local charities, interest earning on account funds, and legal defense reimbursements to the County's Corporation Counsel.

WCMIC indicated that through utilization of the above captioned value added services, the three year annual claim frequency reduction goals for Milwaukee County are 15%, 10%, and 10% respectively.

RETURN ON INVESTMENT

The annual contract costs for WCMIC include a \$203,045 flat rate for all new claims going forward and \$91,955 for legacy claim file handling fees resulting in additional administration expenses. Exhibit D is the Return on Investment (ROI) calculations factoring in hard costs, medical

management leakage control, and claims frequency reductions. Moving to a TPA results in a 640% ROI for Milwaukee County with projected net savings over three years in excess of \$5.5 million.

BUDGET IMPACT: LEGACY CLAIMS

There are approximately 370 legacy claims with a total of \$5.1 million in potential outstanding liabilities. These claims will be transitioned to WCMIC with a goal of claims control and closure (Exhibit E). The accelerated closure of outstanding claims will result in front-end costs of up to \$1.8 million annually for the first two years and up to \$1.5 million for year three.

cc: Chris Abele, County Executive
Raisa Koltun, Chief of Staff, County Executive's Office
Don Tyler, Director of Administrative Services
Paul Bargren, Corporation Counsel
Josh Fudge, Budget Director

Exhibits

- A Milwaukee County 2012 Workers' Compensation Claims Audit
- B State of Wisconsin DWD Compliance Citations
- C Self-Administration versus TPA Process Comparison
- D Return on Investment Calculations
- E Budget Impact: Legacy Claims Calculations