



October 5, 2022

The Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place, Room 244
San Francisco, CA 94102

Subject: *Request for Approval to Contract No. 1000026741 with Intercare Holdings Insurance Services, Inc. to Provide Workers' Compensation Claims Administration Services to the Department of Human Resources*

Honorable Members of the Board of Supervisors:

The Department of Human Resources (DHR) requests that the San Francisco Board of Supervisors approve Contract No. 1000026741 with Intercare Holdings Insurance Services, Inc. (Intercare) to provide workers' compensation claims administration services for a contract amount not to exceed \$29,357,361.00 for a three-year base term, and two three-year term extension options, for a total term of nine years. Board of Supervisors' approval is required under Charter section 9.118(b), because expenditures under the proposed contract will exceed \$10 million.

Background

State law requires that every employer in California provide workers' compensation benefits to its employees for work-related injuries and illnesses; an employer may either secure workers' compensation insurance or may be licensed by the State as a self-insured employer. Cal. Labor Code § 3700(a). The City & County of San Francisco is licensed by the State to be a self-insured employer with claims administration managed by DHR's Workers' Compensation Division (WCD). Most department claims are handled by WCD's self-administered program but they are supported by a Third-Party Claims administrator that currently handles claims for four departments: Department of Public Health, Department of Public Works, City Attorney's Office, and Department of Human Resources. Benefit payments administered to injured employees include temporary disability, permanent disability, medical treatment and related claim expenses. The City's workers' compensation claims costs averaged \$92,753,562 per year (FY 2020 to FY 2022). The DHR currently has approximately 4,250 open workers' compensation claims, and city employees (excluding San Francisco Municipal Transportation Agency (SFMTA)) submitted an average of 3,200 new claims each year from FY 2018 to FY 2022.

State law requires a self-insured employer to manage its employees' workers' compensation claims and distribution of benefits itself or by contracting with a licensed workers' compensation claims management company. Cal. Labor Code §§ 3700(b), 3700(c). In November 2012, the SFMTA and DHR jointly contracted with Intercare for workers' compensation claims services; that contract will expire on October 31, 2022. The DHR now seeks to contract directly with a claims management firm instead of pursuing a joint contract with SFMTA.

Selection Process

The SFMTA and DHR issued a joint Request for Proposals (RFP) on May 4, 2022 for workers’ compensation claims administration services. The agencies contacted 47 claims administration firms to solicit proposals. Three firms submitted proposals: Innovative Claim Solutions, Tristar, and Intercare. (Several firms that declined to submit proposals later explained that the number and complexity of DHR and SFMTA claims, and a lack of resources and labor necessary to perform the services, prevented them from submitting proposals.) Innovative Claims Solutions’ proposal was determined to be nonresponsive because it did not provide required industry account handling certification and documentation establishing that its staff meets minimum experience qualifications stated in the RFP. A selection panel evaluated the remaining two proposals and ranked Intercare’s proposal highest:

Proposer	Total Points
Intercare Holdings Insurance Services	125.42
Tristar	113.20

Scope of Services

Under the proposed new contract, Intercare will provide workers’ compensation claims administration services to DHR. (Intercare will also provide those services to SFMTA under a separate contract with similar terms and conditions.) The scope of services that Intercare will perform are similar to the existing contract, including:

- Claims intake, investigation, and eligibility determination
- Management of temporary and permanent disability eligibility and payments
- Management of medical claims, medical services review, and working with DHR's medical bill review service
- Coordinating payment to medical service providers and evaluating physicians
- Medical and disability claims management to facilitate employees’ return to work
- Management of claims cost reduction programs
- Management of subrogation and third-party claims settlement
- Litigation support to the City Attorney
- OSHA database management
- Medicare injury/incident data reporting

Under the new contract, Intercare will also provide nurse triage injury hotline and reporting, pharmacy benefit management services, fraud investigation and reporting, and other as-needed services to support the City’s workers’ compensation program.

Contract Term and Compensation

The base three-year term of the proposed contract will be from November 1, 2022 to October 31, 2025, with two three-year options to extend the term. The total contract amount for the full nine-year term of the contract is not to exceed \$29,357,361.00. That amount does not include the costs of workers’ compensation benefits, including temporary and permanent disability support payments, and the cost of medical evaluation and treatment. The DHR (on behalf of the City, which is a self-insured employer) pays workers’ compensation benefits and transactional costs (including claims management costs and fees) out of annual operating funds, which are or will be included in DHR’s budgets for FY2022-2023 through FY2031-2032. Intercare will act as the DHR’s agent in processing payment authorizations for those benefits and costs for assigned departments, but those costs are not accounted as expenditures under the contract.

The negotiated administrative fees that DHR would pay Intercare under the proposed contract would be \$2,854,748.00 for the first year, increasing in each subsequent year by three percent. (The current contract annual administrative fee for SFMTA is \$2,970,060.) The negotiated administrative fees are based on the number of claims that Intercare will manage; the contract amount also includes as-needed fees Intercare may charge for additional services authorized by DHR that are outside the scope of the fixed fee services. The proposed fees for the new contract are set out in the following table:

<u>Contract Year</u>	Check Printing	Estimated As-Needed Services	Annual Fixed Fees	Total
Year 1	\$40,000.00	\$775,000.00	\$2,039,748	\$2,854,748.00
Year 2	\$41,200.00	\$806,450.00	\$2,100,940	\$2,948,590.00
Year 3	\$42,436.00	\$839,255.00	\$2,163,968	\$3,045,659.00
Year 4 (1st Ext. Option)	\$43,709.00	\$873,474.00	\$2,228,887	\$3,146,070.00
Year 5	\$45,020.00	\$909,171.00	\$2,295,754	\$3,249,945.00
Year 6	\$46,371.00	\$946,414.00	\$2,364,627	\$3,357,412.00
Year 7 (2nd Ext. Option)	\$47,762.00	\$985,272.00	\$2,435,565	\$3,468,599.00
Year 8	\$49,195.00	\$1,025,818.00	\$2,508,632.00	\$ 3,583,645.00
Year 9	\$50,671.00	\$1,068,131.00	\$2,583,891.00	\$3,702,693.00
Total Amount Not to Exceed	\$406,364.00	\$8,228,985.00	\$20,722,012.00	\$29,357,361.00

The Annual Fixed Fees (paid monthly) covers all costs for managing the City’s workers’ compensation claims for the assigned departments, including claims managers’ wages/salaries and benefits, claims handling costs, overhead, profit, contract transition charges, claims personnel retention incentives, travel, lodging, meals, and other direct costs related to managing workers’ compensation claims. The DHR will not compensate Intercare any additional costs it may incur in managing claims, but the DHR may request additional services under task orders to address claims management issues and requirements that are outside the scope of the fixed-fee general claims services. Task orders will be negotiated using the hourly personnel rates stated in the contract. The Annual Fixed Fees stated in the table above include annual cost increases.

Alternatives Considered

The current contract with Intercare will expire on October 31, 2022. The DHR and SFMTA, with Board of Supervisors approval, could extend the existing contract, but doing so would not accord with City and SFMTA policies that contracts should be put to competitive bid at regular intervals to ensure that the City receives the best services at reasonable prices.

The DHR and SFMTA considered issuing separate RFPs, but the two agencies concluded that issuing a joint RFP and selection process was the more efficient approach. The SFMTA also determined it would be better for it to have its own contract with Intercare, to provide it greater flexibility to address workers compensation issues particular to SFMTA employees.

Thank you for your consideration of this proposed contract. Should you have any questions, or require more information, please do not hesitate to contact Peggy Sugarman, DHR Workers' Compensation Director at 415.701.5848 or Peggy.Sugarman@sfgov.org

Sincerely,



Carol Isen
Human Resources Director