

**Supplement B**  
**Department Of Budget And Management**  
**ACTION AGENDA**  
**August 13, 2014**

**SERVICES CONTRACT**

**ITEM:** 4-S **Agency Contact:** Anne Timmons  
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**DEPARTMENT/PROGRAM:** Budget and Management (DBM)  
Office of Personnel Services and Benefits  
Employee Benefits Division

**CONTRACT ID:** Health Plan Administration and Services –  
Preferred Provider Organization (PPO), Exclusive Provider Organization (EPO) and Integrated  
Health Model (IHM); ADPICS # F10B5400002

**CONTRACT DESCRIPTION:** Provide health benefits for eligible Participants of the State's Employee and Retiree Health and Welfare Benefits Program (the Program) beginning with the plan year effective January 1, 2015. The State's goal is to offer a full complement of benefits in order to attract and retain valued employees as well as ensure their long term health and well-being. In addition, the State fully supports the belief that personal responsibility plays an important role in a member's overall health and wellness and as a result has adopted a phased-in strategic direction that includes Value Based program components for implementation beginning with employee education starting in 2015 and additional plan design features being implemented during the contract.

**AWARDS:** Functional Area (FA) 1 - PPO:  
CareFirst of Maryland, Inc. (Baltimore, MD)  
United Healthcare Services, Inc. (Minnetonka, MN)

FA 2 - EPO:  
CareFirst of Maryland, Inc. (Baltimore, MD)  
United Healthcare Services, Inc. (Minnetonka, MN)

FA 3 - IHM:  
Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.  
(Rockville, MD)

**TERM:** 8/14/2014 – 12/31/2020 (w/2 two-year renewal options for PPO & EPO)

**AMOUNT:** \$ 8,775,091,389 Est. (6 Years, Base Contract PPO, EPO & IHM)  
\$ 3,424,408,676 Est. (2 Years, Renewal Option #1 for PPO & EPO)  
\$ 3,837,722,590 Est. (2 Years, Renewal Option #2 for PPO & EPO)  
\$16,037,222,656 Est. Total (10 Years)

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**PROCUREMENT METHOD:** Competitive Sealed Proposals

**PROPOSALS:** See page 13B

**MBE PARTICIPATION:** 0.2% (See Requesting Agency Remarks below)

**PERFORMANCE SECURITY:** None

**INCUMBENTS:** PPO, EPO:  
 CareFirst of Maryland, Inc. (Baltimore, MD)  
 United Healthcare Services, Inc. (Minnetonka, MN)

EPO:  
 Aetna Life Insurance Company (Hartford, CT)

**REQUESTING AGENCY REMARKS:** A notice of the availability of the Request for Proposals (RFP) was advertised on *eMaryland Marketplace* and DBM’s website. Copies of the solicitation notice were sent directly to 16 prospective vendors, six of which are Maryland firms, and none are MBEs. A copy was also sent to the Governor’s Office of Minority Affairs.

The RFP was divided into three Functional Areas (FA):

<b>Functional Area (FA)</b>	<b>Scope</b>
FA 1 – Preferred Provider Organization-Self-Funded (PPO-SF)	Administrative and nationwide provider network management services for eligible Participants of the State’s PPO medical plans beginning with the plan year effective January 1, 2015.
FA 2 – Exclusive Provider Organization-Self-Funded (EPO-SF)	Administrative and nationwide provider network management services for eligible Participants of the State’s EPO medical plans beginning with the plan year effective January 1, 2015.
FA 3 – Integrated Health Model-Fully-Insured (IHM-FI)	Health benefits services for eligible Participants of the State’s IHM medical plan through a regional network or healthcare system in Baltimore City, Baltimore County, Anne Arundel, Howard, Montgomery, Prince Georges Counties, Washington, D.C, and Northern Virginia beginning with the plan year effective January 1, 2015. FA 3 is only available to those not eligible for Medicare.

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The RFP provided for the possibility of up to two contract awards for each FA (PPO, EPO, IHM). After proposal evaluations, it was determined that it would be best to award two PPO contracts, two EPO contracts, and one IHM contract. Multiple contract awards in the PPO and EPO functional areas allow program participants a choice between different carriers. Because IHM is a new option for the State, it was decided that one award for this FA would be best at this time in order to see how well the new plan is received by program participants.

Twelve proposals were received in response to the RFP, and ten proposals were deemed to be reasonably susceptible of being selected for award. One offeror was determined to be not responsible because it did not have the capabilities to provide fully-insured services for FA 3, and another offeror was determined to be not responsible because the offeror could not demonstrate its capability, reliability, and systems integrity to assure good faith performance.

*FA 1: PREFERRED PROVIDER ORGANIZATION, SELF-FUNDED [PPO-SF]*

Among the four qualified proposals for the PPO, the proposal submitted by CareFirst of Maryland, Inc. (CareFirst) was determined to be the most advantageous for the State. CareFirst's proposal was ranked number one technically and number two financially, with an evaluated price less than 0.1% higher than the evaluated price of the lowest-priced proposal. It was determined that the merits of CareFirst's technical proposal outweighed this price differential, and CareFirst's proposal was determined to be the highest ranked overall. CareFirst, headquartered in Maryland, is an incumbent contractor with the State of Maryland and has consistently provided good service and value overall to the State's Program participants.

The second most-advantageous proposal is also from an incumbent, United Healthcare Services, Inc. (UHC). UHC's technical proposal was ranked second, and its financial proposal was the lowest-priced among the PPO offerors. UHC has also consistently provided the State with good service and value overall.

Therefore, award is recommended to CareFirst and UHC for FA 1.

*FA 2: EXCLUSIVE PROVIDER ORGANIZATION, SELF-FUNDED [EPO-SF]*

Among the four qualified proposals for the EPO, the proposal submitted by CareFirst was determined to be the most advantageous for the State. CareFirst's proposal was ranked both number one technically and number one financially (lowest-priced). As stated above, CareFirst, headquartered in Maryland, is an incumbent contractor with the State of Maryland and has consistently provided good service and value overall to the State's Program participants.

The second most-advantageous EPO proposal is from UHC. UHC's technical proposal was ranked second, and its financial proposal was ranked second amongst the EPO offerors. UHC has also provided the State with consistently good service and value overall.

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Therefore, award is recommended to CareFirst and UHC for FA 2.

*FA3: INTEGRATED HEALTH MODEL, FULLY-INSURED [IHM-FI]*

The IHM proposal submitted by Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc. (Kaiser) was determined to be the most advantageous for the State. Kaiser's proposal was ranked both number one technically and number one financially (lowest-priced overall). Kaiser, headquartered in Rockville, Maryland, specializes in the type of service offered under the IHM model. In addition, Kaiser's financial proposal was significantly less costly in comparison to the second ranked Offeror's financial proposal.

Therefore, award is recommended to Kaiser for FA 3.

MBE participation goals of 6% of the total administrative fees paid to the Contractors for PPO and EPO contracts and 0.6% of the total premiums paid to the Contractor for the IHM contract have been established for these contracts. All recommended contract awardees have committed to meeting these MBE goals. VSBE participation goals of 0.5% of the total administrative fees paid to the Contractors for PPO and EPO contracts and 0.05% of the total premiums paid to the Contractor for the IHM contract have been established for these contracts. All recommended contract awardees have committed to meeting these VSBE goals.

The *Award Amount* includes six years of fixed price administration and network fees, plus six years of projected claims for PPO and EPO, and fixed premiums for years 1 and 2 with maximum annual increase percentages for years 3 through 6 for IHM. The financial model was based on enrollment assumptions and utilization using current enrollment levels across the various enrollment tiers (employee, employee + 1 Child, employee + spouse, family).

The Contractors will begin offering their plans as of January 1, 2015. However, it is necessary for the selected Contractors to participate in Program Open Enrollment activities beginning in August 2014. No payments will be made for any activities prior to January 1, 2015.

A protest was received from Aetna Life Insurance Company (Aetna), one of the incumbents, on August 6, 2014. DBM has denied the protest and sent a response to Aetna on August 11, 2014.

DBM has identified the following substantial State interests that would be impacted if these contract awards are delayed:

- The current rates/plan design would increase the program spend by \$4 billion over 10 years;
- The implementation of the new health benefits/wellness program as advocated by the Governor and other stakeholders would be delayed by one year (including the new IHM with Kaiser); therefore, delaying population health improvement;

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- Low preventive care use and poor treatment compliance cost the Program over \$700 million annually. The new plans have participant incentives and penalties to encourage engagement; and
- Open Enrollment begins October 15<sup>th</sup> and the 136,000 enrollment guides, enrollment forms and health fair schedules must be sent to the printers by August 27<sup>th</sup>.

By approving this item, per COMAR 21.10.02.11.A, the Board of Public Works will be deemed to specifically find that execution of the contracts without delay is necessary to protect substantial State interests and it will specifically be doing so notwithstanding the fact that Aetna has protested not being awarded a new contract.

**FUND SOURCE:** Various

**APPROP. CODE:** Various

**RESIDENT BUSINESSES:** Yes (CareFirst & Kaiser)  
 No (UHC)

**MD TAX CLEARANCES:** 14-1897-1110 (CareFirst)  
 14-1867-1111 (UHC)  
 14-1870-1110 (Kaiser)

**PROPOSALS (Cont.):**

<b>FA 1 - PPO PROPOSALS</b>	<b>TECHNICAL RANKING</b>	<b>BAFO #3 FINANCIAL OFFER (RANKING) [SIX YEARS + TWO 2-YEAR OPTIONS]</b>	<b>OVERALL RANKING*</b>
CareFirst of Maryland, Inc. (Baltimore, MD)	1	\$17,168,658,190 (2)	<b>1</b>
United Healthcare Services, Inc. (Minnetonka, MN)	2	\$17,157,887,375 (1)	<b>2</b>
Aetna Life Insurance Company (Hartford, CT)	3	\$17,776,902,499 (3)	<b>3</b>
Cigna Health and Life Insurance Company (Bloomfield, CT)	4	\$18,252,762,829 (4)	<b>4</b>

*Note: \*Technical and Financial factors were given equal weight in the overall award determination.*

