



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802

Gerald R. Miller
CITY MANAGER

December 14, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Contract for Managed Health Care Services with Tristar Managed Care Inc.
for Workers' Compensation Claims Management Citywide

DISCUSSION

In recognition of burgeoning Workers' Compensation costs, the City, with the approval of the City Council, secured the professional services of Deloitte Consulting in mid-2003 to conduct a comprehensive study of the City's Workers' Compensation, Risk Management, and Occupational Health operations. Upon completion of their study activities, Deloitte issued a series of recommendations that would, if adopted, reduce costs and improve efficiencies in the City's operations.

At the same time, the Governor and State Legislature were equally concerned about the trend of rising Workers' Compensation costs in the State and the deleterious effects those costs would have on the California economy. With the Governor's support and encouragement, a package of legislation was approved with the stated intent of reducing Workers' Compensation costs and improving the business climate in California while still providing superior care and treatment to affected employees.

While the legislation has many varied components, one very positive aspect is that which permits employers to designate a specific appropriate and acceptable medical provider in a managed care network for treatment of a Workers' Compensation claimant. By maintaining a degree of oversight in the treatment process, there is far less likelihood of questionable diagnoses and treatment regimens. In addition, the acquisition of a managed care provider was one of Deloitte's recommendations for both improving the efficiency and enhancing the quality of the City's Workers' Compensation programs.

In accordance with the provisions of the legislation and Deloitte's recommendation, the City initiated a Request for Proposal (RFP) process to select a managed health care provider that would serve as the City's preferred source of medical treatment for its Worker's Compensation claimants. The result of the RFP was the selection of Tristar Managed Care, Incorporated, headquartered in Long Beach.

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TRISTAR Risk Management is a leading provider of professional claims and risk management services. Tristar was founded in 1987 and has claims offices in Sacramento, Los Angeles, Santa Ana, Irvine, San Diego, Phoenix, Las Vegas and Denver. Tristar will provide the following services for the City's Workers' Compensation program:

Bill Review: Tristar will provide bill review services consisting of analyzing provider billing for errors, duplication, fraud; billed charges will be repriced to the lesser of charges pursuant to the applicable state-mandated Fee Schedule or in non-Fee Schedule states to usual and customary charges. Bill Review will also provide any applicable additional savings for services provided by a Preferred Provider in the Medical Treatment network. Bill Review services are designed to insure that payment for medical treatment is being made with the optimal cost savings benefit to the City in accordance with State allowable charges.

Utilization Review: Tristar will provide services, when referred by the City of Long Beach, for review of treatment recommended by physicians who treat employees under the City of Long Beach Workers' Compensation Program for adherence to the American College of Occupational and Environmental Medicine (ACOEM) guidelines or those treatment guidelines mandated by the State of California. Tristar will also review such treatment in accordance with any other medically-accepted, scientifically-based guidelines that may apply. Utilization Review services are designed to provide the City of Long Beach with tools to insure that the City and the injured worker receives the reasonable and necessary medical care to treat Workers' Compensation injuries. Utilization Review is a State-mandated program for which all employers must establish a process to approve, modify, delay, or deny treatment plans based on medical necessity to cure and relieve the effects of an industrial injury. This law went into effect January 1, 2004.

Medical Case Management: Tristar will provide services, when cases are referred by the City of Long Beach, in the form of telephonic case management, field-based case management, and task-based case management, all provided by licensed professional medical practitioners including physicians and nurses. These services are designed to assist the Workers' Compensation office with the management of treatment for injured workers. Referral criteria are to include, but are not limited to, claims with an anticipation of long-term disability, severe or catastrophic injuries or one time intervention to assist in returning the employee to modified or full duty.

Medical Treatment Network: Tristar will assist the City in the development and maintenance of an Employer Treatment Network for the medical care to be provided to industrially injured workers. The network is to conform to the rules and regulations as outlined by the State of California and will be a combination of Preferred Provider Network Physicians and City of Long Beach selected physicians. The network will include certified medical professionals, up-to-date facilities, and it will cover an extensive geographical area. The implementation of this Employer Medical Treatment Network will provide the City with control of the medical care necessary to treat injured employees and to maximize the

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savings available. The network will provide expert medical services the City needs to insure that the best care possible is available to the injured worker.

TIMING CONSIDERATIONS

To comply with the recently enacted State legislation and to ensure that the City achieves the maximum possible benefit under the law, Managed Health Care services must be in place as of January 1, 2005.

FISCAL IMPACT

In addition to improving the level of services provided to the City's Workers' Compensation claimants, the most significant advantage of establishing a contractual relationship with a managed health care provider is the savings to be derived. In its recommendations, Deloitte Consulting estimated that subsequent to the implementation of a managed care network, the City would ultimately achieve savings of 8% in medical costs and 3% in indemnity costs. Using the average costs in both categories for the past three fiscal years, savings at the rate estimated by Deloitte would generate approximately \$1,000,000 annually. Total medical and indemnity costs for the Fiscal Year 03-04 were approximately \$16.5 million.

The City's contract with Tristar will establish an agreed-upon fee schedule for the various components of the agreement. The savings to be derived by the City will be over and above the charges paid in accordance with an established fee schedule for primary services, which is attached.

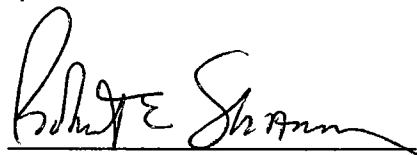
The charges that will be incurred as a result of the implementation of the fee schedule have been included in the Fiscal Year 2005 Budget in the Insurance Fund (IS 390) in the Department of Financial Management (FM).

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Authorize the City Manager to execute a contract with Tristar Managed Care, Incorporated, to provide managed health care services for workers' compensation claims management for the City of Long Beach for the period beginning January 1, 2005, through December 31, 2005, with an option for a two year renewal.
2. Authorize the City Manager to execute any subsequent amendments necessary to maintain service levels and remain in compliance with State and Federal laws.



GERALD R. MILLER
CITY MANAGER



ROBERT E. SHANNON
CITY ATTORNEY