COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

Item No. 8i

Date of Meeting August 11, 2026

DATE: August 04, 2026

TO: Stephen P. Metruck, Executive Director

FROM: Sandra Spellmeyer, Manager, HR Total Rewards
Kecia Reichstein, Director, HR Total Rewards

SUBJECT: Contract to Provide Medical Claims Administration Services for the Port's Self-Insured Medical Plans

Amount of this request: $14,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to advertise, award and execute up to a 10-year contract valued at $14,000,000 dollars with a Medical Claims Administrator for the Port's self-insured medical plans for Port employees. This will be for administrative services to review and pay medical claims, manage contracts with a network of providers, and provide ancillary healthcare services that will promote efficient and convenient medical care offerings.

EXECUTIVE SUMMARY

The Port has self-insured its non-HMO medical plans since 2011. This funding arrangement is more cost effective for the Port than a fully insured option as we only pay for claims actually incurred and the administrative cost to process and pay those claims. The Port also has more flexibility with benefit offerings under a self-insured plan as we establish the plan design best suited for covered Port employees rather than selecting from among plans offered by various insurance companies.

Maintaining self-insured plans requires the Port to contract with a Medical Claims Administration vendor, also known as a Third-Party Administrator (TPA), to review and pay medical providers on behalf of the Port's covered employees. They also maintain a network of providers that they have negotiated rates with, which saves the Port and our covered employees money as these negotiated rates typically represent significant discounts. In addition, the TPA often provides ancillary healthcare services to the Port and its covered employees that will promote efficient and convenient medical care offerings for employees and their families covered by the Port's medical plans.

The current medical claims administration contract expires at the end of 2027. Our goal is to execute a contract by the first quarter of 2027, to be able to factor in any change to cost associated with the new agreement into the 2028 budget and have ample time to implement and communicate any changes with employees for the fall 2027 open enrollment period for a January 1, 2028, contract execution.

JUSTIFICATION

A self-insured medical plan is more cost effective than a fully insured plan. For various reasons, including state premium taxes and profit margins of insurance companies, the cost of a self-insured medical plan is typically 5% to 10% less than a fully insured plan. In addition to the cost savings, employers with self-insured plans have more flexibility determining what benefits are covered, how they are covered and what deductibles, coinsurance, and copays are for their plans. This permits the Port to customize the Port's medical plans to align goals for a healthy workforce and cost containment strategies. The approximate cost of our 2027 self-insured medical plans is $21.2 million, which includes the claim cost. Self-insuring these saves the Port $1.06 million to $2.12 million annually.

DETAILS

A competitive selection process is required by Port policy. The selection process will seek to minimize the disruption employees, and their families will experience by having their current doctors being 'out of network' with the new TPA and by seeking a TPA who can administer the Port's current medical plan design. The selection process will also seek to consider the customer service levels of the proposing TPAs and ensure a positive customer service experience for Port employees when they must contact the TPA.

Claims administrators are paid a monthly fee per enrolled employee. While we cannot know what the proposed fees will be, we are projecting slight fee increases, 3-5% after the first 5-year rate guarantee, in the cost estimates. The larger impact on the total cost of the contract is the number of employees covered by the Port's self-insured plans. Projected new FTEs that may be requested over the next ten years are factored into the cost estimate for the duration of the contract. Currently we have 1450 eligible employees for Port Sponsored Healthcare, which includes non-represented, represented, and some temporary employees. The remaining 950 Port employees are represented and have benefits through their union trust.

Scope of Work

The contracted TPA will maintain and communicate a network of providers who will provide medical services to cover Port employees and their families at negotiated rates that are less than the providers' standard billing rates. They will also receive claims, review them to see if they are for covered services and, if they are, determine the Port's and employees' shares of the cost and pay the providers. The TPA may also provide ancillary services like a Disease Management program, 24-hour Telehealth services, Nurse Case Management program, or other services related to providing efficient and cost-effective medical care to Port employees and their covered family members.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Change the funding mechanism for these plans from a self-insured arrangement to a fully-insured arrangement.

Cost Implications: Over a 10-year contract the Port could pay estimated average of 15.9 million more for fully insured medical plans than for self-insured plans. This additional cost is due to the premium tax imposed by the State of Washington on fully insured plans as well as profit margins and risk charges built in to fully insured plans.
Pros:

(1) Fully insured plans are easier for staff to administer than self-insured plans:

- procurements for claims administration services are not necessary,
- reporting the financial status of our plans to the State is not required with fully insured plans, and

(2) The risk of catastrophic claims is borne by the insurance company rather than the Port so separate supplemental risk insurance to protect the Port from this financial exposure is not necessary.

Cons:

(1) The Port would not realize the full benefit of employees' careful attention to their health and judicious use of healthcare services as we would pay a fixed premium to the insurance company that is based on expected claims costs. With self-insured plans, we pay only for actual claims costs.

(2) Fully insured plans cost more than self-insured plans, primarily because of the state's premium tax.

This is not the recommended alternative.

Alternative 2 – Perform the proposed contracted work in-house.

Cost Implications: Over the course of a 10-year contract, the cost of performing this work in-house would exceed the cost of contracting with a TPA by an estimated $10.9 million. This is a very rough estimate that assumes many variables.

- Network access fees estimated average over 10 years of $95.57 per employee per month total $1,376,223 annually. This would likely result in a smaller network of providers for Port employees to access and smaller discounts/higher claims costs for both the Port and covered employees.

- Ancillary services at estimated average over 10 years of $15.69 per employee per month total $225, 983 annually.
- Staffing costs are estimated at an average over 10 years of $829,316 annually. This is based on an estimate of 5 employees to review, process and pay claims as well as resolve claims questions and issues with providers and fulfill the customer service function for both employees and providers.
- The Port would need to purchase or develop a claims administration system. Our consultant provided a very rough estimate of $1.5 million to secure the necessary system. Not included in this cost are expenses associated with updating and maintaining the system, as provider fees and plan designs change.

Pros:

(1) The Port would have total control over services provided for covered employees and family members.

Cons:

(1) Port staff would need to contract with vendors through a competitive selection process to provide utilization review, disease management, and other services requiring highly specialized skills.

(2) The Port would not have the economies of scale that vendors who are in the business of providing these services would have. This would mean the fees the Port would pay would be higher.

(3) The volume of claims administration work can vary from week to week for the Port's relatively small number of covered employees so ensuring staff was fully engaged at all times could be a challenge. Employees would have great concern about confidentiality of personal health data if their medical claims were processed by other Port employees.

(4) The Port would need to purchase claims processing software and equipment to produce member identification cards.

(5) Port would need to provide a highly secure area for the hired staff and the medical claims records.

(6) The time required to define needed jobs and hire qualified staff would be significant.

(7) This alternative is considerably more expensive than the current claims processing arrangement.

This is not the recommended alternative.

Alternative 3 – Continue to contract with third party administrators to provide these services to the Port.

Cost Implications:

Approximately $14 million over 10 years.

Pros:

(1) Contracting with a TPA for medical services simplifies obtaining all necessary elements of healthcare administration as the TPA would develop and manage the provider network, process all claims, and provide specialty services.
(2) This alternative allows the Port to capitalize on a TPA's broad-based knowledge and expertise to the benefit of our plans, and the employees and family members covered by them.
(3) This alternative permits Port staff to focus on strategic work in the area of health benefits rather than operating its own "insurance" company.

Cons:

(1) The work required to carefully craft procurement materials, review proposals and select vendors who best meet the needs of the Port, its health plans and the employees covered by them are significant.
(2) Staff time to manage the relationship with the TPA and resolve issues with them could be significant

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The estimated cost of this contract over 10 years is a maximum of $14,000,000.

Annual Budget Status and Source of Funds

The Port paid fees associated with this contract are included in the Port's benefits budget each year. They are incorporated into the total budgeted amount and then allocated to departments along with other benefits items such as life insurance premium costs, disability insurance costs, dental, and vision plan costs.

ATTACHMENTS TO THIS REQUEST

No attachments.