

To: Health Connector Board of Directors
From: Louis Gutierrez, Executive Director
Cc: Vicki Coates, Chief Operating Officer
Edward DeAngelo, General Counsel
Ashley Hague, Deputy Executive Director, Strategy & External Affairs
Date: January 10, 2016
Re: Dell Contract Amendment and Renewal Update

EXECUTIVE SUMMARY

Dell is the Health Connector's current Business Operations and Customer Service vendor. While Dell has provided services to the Connector since 2008, their current services agreement was signed in 2013, prior to full implementation of the Affordable Care Act (ACA). With the benefit of three years of ACA open enrollment experience, both parties are proposing to modify the structure of the services relationship to provide consistent support to the Health Connector's needs under the ACA going forward. The contract amendment that is the subject of this memorandum gives the Health Connector greater financial stability and predictability over the next four years, while preserving our ability to modify the model as needed (e.g., to carve out services). We will be coming to the Board on January 14 seeking a vote to authorize Health Connector staff to proceed with effectuating a contract amendment and renewal effective July 1, 2016, along with a related change order to the current agreement, with Dell Marketing, LLP (Dell). The negotiations underlying the proposed term sheet are time sensitive (relating to the end of Dell's fiscal year on January 31, 2016), and reflect the result of almost a year of back and forth exchanges.

[Note: On January 5, a news item was published indicating that Dell is in negotiations to sell the business unit through which Massachusetts (as well as many other business process outsourcing clients) services are provided. This news comes as a surprise. While the negotiated contract renewal terms remain favorable to the Connector, and would survive any such sale, the Health Connector will be ensuring that the contract contain a provision providing it with protection in case of a "change of control".]

BACKGROUND

Prior to the ACA, the Health Connector administered two coverage programs, Commonwealth Care and Commonwealth Choice, with two separate customer service contractors, Dell and the Small Business Service Bureau (SBSB). The two programs were structured in a different way given their base design – one was a subsidized Managed Care Organization (MCO) program and one was an unsubsidized commercial coverage program. Eligibility for the subsidized program was managed and serviced by MassHealth, while eligibility for the unsubsidized program was managed and serviced by SBSB (though notably, the eligibility requirements were very limited).

Pursuant to the product requirements of the ACA, where all health plans (or as they are specifically known, Qualified Health Plans (QHPs)) offered are based upon commercial products, the Health Connector now administers a single integrated program for subsidized and unsubsidized individuals enrolled in these products and serviced by a single vendor. In addition, given the eligibility requirements under the ACA for both subsidized and unsubsidized QHPs, this vendor provides eligibility customer support as well as support for shopping and enrollment, for both the unsubsidized and the more-complicated subsidized populations.

In 2013, after a rigorous competitive procurement process, the Health Connector selected Dell as the contractor to establish and maintain a customer contact center and perform business operations for these populations. Under this contract, Dell provides the following services: member service call and walk-in centers, document handling/processing, eligibility and enrollment processing as well as premium billing and payment reconciliation. The 2013 Dell agreement was approved by the Health Connector Board on February 28, 2013 and the contract was signed on April 17, 2013. The current contract is set to expire on August 16, 2016 and has three one-year options to renew after that date. As we near the end of the third ACA open enrollment period (which coincides with the end of Dell's fiscal year), we are presented with an opportunity to evaluate the original contract terms with Dell to assess how we can best structure our relationship in order to provide certainty and stability for the Health Connector in the coming years.

The initial startup and transition costs incurred in 2013 under this contract were \$16M. After start-up, payment for services was based on a per member per month (PMPM) model, under which the monthly payment to Dell depends on the size of the membership enrolled in Health Connector plans and serviced by Dell. The PMPM model provides both budget predictability and service-level protections for the Health Connector. It also aligns interests for the two entities, where both benefit from higher enrollment.

The underlying assumptions for the initial contract with Dell did not appreciate the full range of additional activities and time needed for eligibility and enrollment processing, and further presupposed that the website would be fully functional for the first ACA Open Enrollment period in 2013. Our experience to date, however, makes clear that the operational processes needed for ACA-compliant products and systems are more complex than those that existed under our prior programs, Commonwealth Care and Commonwealth Choice. Furthermore, the original systems vendor, CGI, underperformed and delivered a website that was non-functional for the first ACA Open Enrollment period, significantly increasing operational and servicing needs during this contract term. As we transitioned our website platform to the hCentive system, Dell was maintaining a population of members with a high number of operational workarounds in lieu of a working system. Even today, Dell continues to support operational workarounds, albeit fewer, to support areas where our system is still lacking in functionality yet to be built.

For the past three years, call and document processing volume, self-service, notices and transaction handling assumptions underlying the base 2013 contract have been a challenge to project accurately.

Dell has incurred significant losses on the account and the landscape in which it is operating is different than that which was contemplated in 2013. Despite this, Dell has continued to support the Health Connector and our membership, and most significantly has worked with the Health Connector to put in place a service recovery and delivery plan for the 2016 Open Enrollment period, which resulted in the dramatically improved service levels this year as compared to the previous year. For these reasons, as well as those outlined below, we are seeking to extend the current contract term with Dell and amend the underlying Master Services Agreement.

PROPOSED RESTRUCTURING OF THE CONTRACT

The Health Connector has been working with Dell to restructure the current contract terms to ensure stability and certainty for both Dell and the Health Connector in our ongoing business relationship. This is an opportunity to amend the contract with the experience and insight we have gained over the past few years implementing the ACA in Massachusetts.

Maintaining Dell as our business operations and customer service vendor prevents the inevitable instability that turnover would cause, both financially and operationally for the Health Connector and our members.

We believe the amended contract terms are beneficial for the Health Connector and provide financial certainty. Our contract with Dell uses a mutually beneficial PMPM structure as its base that creates a shared incentive to grow membership. Our benchmarking shows that other states were only able to obtain time and materials contracts due to the uncertainty surrounding the ACA. These contracts, which essentially pay vendors a fee per minute or per call, make it difficult to predict costs or service levels year-over-year. In addition, we examined rate cards for current vendors for other state agencies and conclude that our current rates are either lower or on par, while our service level requirements are more stringent.

KEY TERMS OF CONTRACT EXTENSION

The Health Connector is seeking Board approval to finalize terms with Dell within the following framework:

- Multi-year extension of the contract period and Service Level Agreements (SLAs) from July 1, 2016 through June 30, 2020. (This is one-year longer than originally anticipated at the time that the 2013 contract was competitively procured, but this extension makes sense in order to recover the up-front investment in service improvements and to ensure continuity).
- One-time change order to the existing contract of \$4.65M, payable in the first part of 2016, that reflects the conclusion of a year-long negotiation over adequacy of FY2016 rates to sustain Dell operations, in light of substantial monthly losses on the account.

- Modifications to the PMPM and additional payments, which recognize what we have learned through experience about the real cost of our service model needs under the ACA:
 - A 15% increase in the PMPM rate, effective July 1, 2016. This increase reflects the array and complexity of member interactions as compared to the estimation of level of effort for these activities in 2013. Holding other variables (membership, COLA) equal, this would result in a roughly \$2.2M annual increase in PMPM service costs at current membership levels.
 - An annual fee of \$3.1M in recognition of expected call volume and maintenance of existing service levels throughout the calendar year.
 - An agreed-upon cost per call should call volume extend beyond a 2% increase above forecast each quarter and a mechanism for crediting the Health Connector should volume decrease 2% below forecast for the quarter.
- A one-time infrastructure investment of \$2.3M paid out over a two-year period commencing July 2016 for optimization and efficiencies in the call center to decrease the number of calls handled overall, decrease handle time and increase self-service.
- The ability to carve out aspects of the service model, such as servicing eligibility calls or processing premium payments, in the event our needs change over time.
- As alluded to above, the flexibility to terminate in the event of a change of corporate ownership that is likely to negatively impact performance under the contract.

In addition to the above terms, the Health Connector will be reserving in its budget (as we do today) a category for new change orders each year to reflect expanded or changed service requirements such as the new walk-in centers during Open Enrollment. This change order category will also fund the continued upgrades and improvements Dell will need to install as a result of any system improvements that are made in 2016 and 2017 per the Commonwealth's HIX project roadmap. The use of the change order category is not guaranteed and it is within the sole discretion of the Health Connector whether to proceed with change orders. Moreover, any change orders in excess of \$250,000 will be brought before the Board for a full vote, in accordance with our bylaws.

Finally, the Health Connector and Dell have agreed to use existing monthly contract oversight meetings to monitor the assumptions included in this renewal period and to jointly plan for improved efficiencies and process changes. Any overall staffing adjustments that may be necessary because of unforeseen increases in call volume will occur only after mutual agreement.

The value of the contract amendment and renewal will allow the Health Connector to include a predictable figure in the modeling that is underway regarding long term sustainability. In addition, we are revising our FY16 budget and our reliance on revenue from the Commonwealth Care Trust Fund to support the changes contemplated in this amendment that will affect FY16.

BOARD RECOMMENDATION

Health Connector staff recommend the amendment, extension and change order to the Business Operations and Customer Service contract with Dell Marketing, LLP under the terms outlined in this memorandum.