Matthew Snook
Principal

3031 North Rocky Point Drive West,
Suite 700
Tampa, FL 33607
Tel. 813.207.6310
matthew.snook@mercer.com
www.mercer.com

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

August 26, 2008

Ms. Amy Cox
Human Resources Manager
Risk Management Division
Leon County Courthouse
301 S. Monroe St., Suite 201
Tallahassee, FL 32301

Via Email

Subject: *Illustrative* Feasibility Project for On-site Clinic

Dear Amy:

Per our recent conversation, Mercer is able to assist Leon County as needed to study the feasibility of providing on-site primary medical care services for your employees. This process would provide assistance in the following areas:

- Define business opportunities for an on-site clinic (e.g. cost control and improved employee convenience and health) and its scope of services (e.g. primary care, wellness/health promotion and occupational health)
- Identify start-up costs and timing, and estimate realistic savings and Leon County's expected return on investment

Proposal Overview

There are a number of important considerations that need to be taken into account as Leon County explores the feasibility of on-site medical services. These include the availability, cost, and quality of medical services available in the community, specialty physician referral patterns, and Emergency Room (ER) utilization.

The employee relations impact and financial consequences of the decisions resulting from this study are significant. Our approach is designed to ensure that Leon County makes the most of its investment in this upfront analysis and to facilitate thoughtful, informed decision-making.

Mercer's Approach

One approach to this work, and generally the most cost effective, is to conduct this project in two sequential phases:

Services provided by Mercer Health & Benefits LLC

Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

- Establishment of a Conceptual Framework for Clinic Operations
- Opportunity and Cost/Benefit Analyses of Preferred Clinic Delivery Model

Phase 1 – Establishment of a Conceptual Framework for Clinic Operations

The purpose of this phase is to confirm Leon County's business objectives, review potential clinic models, establish the conceptual framework that will guide the subsequent analyses, refine the approach if desired, and reach agreement on a work plan. For example, evaluating staffing models or options requires articulating the pros and cons of mid-level (nurse practitioner or physician's assistant) versus physician (MD or DO) practitioners, as well as whether to outsource to a vendor to deliver certain services such as staffing and management. To accomplish this, Mercer will:

- Discuss and confirm Leon County's overall business objectives, future plans, HR goals, employee/labor relations climate, financial issues, philosophy on your benefit programs (and as necessary their application to retirees and dependents), which all will set the context for considering potential on-site clinic services

- Review emerging trends and approaches to clinic models including overall scope, service mix, reach and staffing considerations

- Outline project steps, timing, analytical methodology, and data sources that can be used to support it

Phase 2 – Opportunity and Cost/Benefit Analyses of Preferred Clinic Delivery Model

In this phase we will construct an operating clinic model, depending on initial direction from Phase 1 and what we see as potentially achievable near-term and longer-term benefits.

Impact and Opportunity Analysis

This phase will enable our team to identify the costs for externally delivered medical services (i.e., through the health plans and other relevant vendors), especially primary care, that could potentially be delivered more conveniently, efficiently or cost-effectively through an on-site clinic. This step will include:

Services provided by Mercer Health & Benefits LLC
Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

- Identifying a target population of employees and possibly covered dependents that would be eligible to access care at the clinic.

- Analyzing health plan paid medical claims to determine the amount of primary care that is received by the target population, and what proportion of that might be expected to be delivered on-site over time. We then would apply clinically sound adoption assumptions by service type (CPT-4 code) for Years 1 to 3 following on-site clinic opening.

- Determining external costs through use of CPT-4 codes on either a health plan-specific or region-specific basis. We will confirm the specific services for which reasonable external benchmarks exist, and then determine the external costs to be used for comparative purposes. Ideally, we will use actual Leon County paid claims data as the basis for this determination. Otherwise we will use estimates based on Mercer's other available benchmark data.

Documenting current plan costs and utilization patterns will provide a baseline for assessing potential impact of improved care administered through an on-site clinic. This step would include evaluating the opportunity to address impactable health risks and conditions of Leon County's population and how the clinic could support these efforts. Any available health risk assessment and health management program data may also be valuable for the analysis.

Based on this discovery and assessment process, we will summarize and present our findings, so that we understand and agree on the potential services and value proposition of an on-site clinic. This process will help us determine the data sources that we will seek to analyze in order to identify clinic opportunities and to quantify the investments and expected value in terms of improved care and savings.

Services provided by Mercer Health & Benefits LLC

Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Cost/Benefit Analysis: Determining the Economic Value of the Clinic

The potential value that on-site clinics provide takes multiple forms, and it is critical to identify and attempt to quantify each type of value in order to accurately compare initial and ongoing investments against savings (the return on investment). Our economic impact analysis comprises the following steps:

1. Determine the potential costs for running an on-site clinic for the next five years, assuming projected cost and utilization trends.

2. Estimate the five-year costs for running the clinic under the identified model, including such expenses as:
   - Staffing (clinical and non-clinical) and certifications/licensure, training, etc.
   - Medical equipment and supplies; routine and emergency
   - Facility expense
   - Systems and data management for medical records and security

   In projecting these costs, earlier input from claims analyses, and other data will enable us to estimate utilization and service volumes.

3. Quantify the five-year projected savings from the clinic services under the scenario being considered, in terms of:

   - Avoided health plan costs: from (a) replacing outside care (e.g. ER visits of questionable appropriateness) with potentially more cost-effective care on-site and (b) better health management (screening/prevention, care support, wellness, etc.)

   - Improved productivity and/or reduced replacement labor costs from fewer absences for outside medical care during work hours and disabilities.

Our model quantifies both direct and indirect costs of incidental and extended absences. Indirect costs represent the cost of other workers ("replacement labor") covering the work of employees during an absence, whether due to a sick day, disability, or half day away for a doctor visit. We will attempt to quantify these using available data from finance and/or staffing personnel with knowledge on how work is replaced by major job category. Through collecting specific input from organizations for various major job categories, we have

Services provided by Mercer Health & Benefits LLC
Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

produced credible estimates of indirect costs, in terms of both hard dollar expenses and soft dollar lost revenue opportunity.

In quantifying investment costs and developing the economic return from the clinic through its impact on medical and lost time costs, we will apply assumptions based on Leon County's population. We typically will model using a sensitivity analysis (conservative, likely case, and best-case scenarios) to provide a range of potential outcomes. We project results out over five years, since the potential savings will likely occur over a multi-year period.

The exhibit below provides an example of part of a savings analysis summary. However, the final form of this analysis, as noted, will depend on the specific clinic model(s) under consideration and type of impact it might have.

$s In Thousands

	Year 1 2008	Year 2 2009	Year 3 2010	Year 4 2011	Year 5 2012
New Investment					
Staffing	$200	$210	$220	$220	$230
Facilities & Eqpt.	$800	$830	$870	$900	$940
Variable	$500	$530	$550	$580	$610
Total	**$1,500**	**$1,570**	**$1,630**	**$1,700**	**$1,780**
Savings					
Health Care	$0.0	$150	$620	$1,160	$1,640
Lost Time	$200	$700	$140	$170	$200
Reduced Time to Access to Care	$220	$670	$1.240	$1,950	$2,330
Productivity	$210	$560	$770	$830	$1,080
Total	**$430**	**$1,380**	**$2,630**	**$3,940**	**$5,250**
Net Savings	**($1,070)**	**($190)**	**$1,000**	**$2,240**	**$3,470**
Cumulative	**($1,070)**	**($1,260)**	**($260)**	**$1,980**	**$5,450**
ROI	**0.3**	**0.9**	**1.6**	**2.3**	**2.9**

Services provided by Mercer Health & Benefits LLC

Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Once we have completed our analysis, we will confer with the Leon County to review the results and gauge your confidence in the assumptions made, e.g. timing, employee reach, etc. From this, we will compile our final recommendation and report for presentation to senior management.

Illustrative Project Timeline

Below is our preliminary estimate of the timing and accountabilities for the key project steps. We will develop a more detailed project plan for discussion in Phase 1 to be reviewed with you and adjust it as needed.

Major Tasks or Deliverable	Timeframe	Responsible Parties	
		Leon County	Mercer
Phase 1: Establishment of a Conceptual Framework for Clinic Operations	**3 Weeks**		
▪ *Project kick-off preparations and meeting*	Week 1	✓	✓
▪ Finalize work plan and project scope	Week 2		✓
▪ Issue data request to Leon County and vendors	Week 3		✓
Phase 2 Opportunity and Cost/Benefit Analyses of Preferred Clinic Model	**11 Weeks**		
▪ Establish preferred clinic staffing / operating model	Week 1	✓	✓
▪ Analyze data on employee demographics, claims and utilization patterns, and plan costs for selective services	Weeks 2 - 4		✓
▪ Summarize data and populate clinic economic impact model with investment, claims, estimated service volumes, and population data	Weeks 4 - 6		✓
▪ Summarize findings and draft analysis	Week 7		✓
▪ Call to discuss our analysis	Week 8	✓	✓

Services provided by Mercer Health & Benefits LLC

Consulting. Outsourcing. Investments.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Major Tasks or Deliverable	Timeframe	Responsible Parties	
		Leon County	Mercer
▪ Prepare report , draft final recommendations and business case presentation; solicit feedback	Weeks 9-10		✓
▪ Present final report/business case to senior management	Week 11	✓	✓
Total Elapsed Time	**14 Weeks**		

Amy, as we discussed, this provides only an illustrative scope and timeline, but those provided are typical of these types of projects. As we discussed, it would generally only make sense to pursue this type of arrangement in a self-insured medical plan environment, so a full evaluation of that type of funding arrangement would likely make sense prior to the performance of the onsite clinic feasibility analysis.

If you have any questions as you review this information, please do not hesitate to contact me. Thank you again for the opportunity to continue to serve Leon County.

Sincerely,

Matthew Snook
Principal

Services provided by Mercer Health & Benefits LLC
Consulting. Outsourcing. Investments.

Attachment # 14
Page 2 of 8

From: "Snook, Matthew" <Matthew.Snook@mercer.com>
To: "Amy Cox" <CoxA@leoncountyfl.gov>
Date: 8/26/2008 7:32 AM
Subject: Onsite Clinic Feasibility Study
Attachments: Illustrative Proposal for Onsite Clinic Consulting.pdf

CC: "Jaeger, Missy" <Missy.Jaeger@mercer.com>

Good Morning Amy,

Here is the overview of the onsite feasibility study project we discussed yesterday. Please take a look and let me know if you have any questions. As we discussed, a ballpark for the fee range would be high $30's, to around $42,000. We would need to have a preliminary discussion with you to refine and confirm scope before we can give a final, firm fee quote.

Thanks for your interest in this work, and in Mercer.

<<Illustrative Proposal for Onsite Clinic Consulting.pdf>>

Matthew L. Snook
Principal
Mercer
3031 North Rocky Point Drive West, Suite 700
Tampa, FL 33607
USA

phone: +1 813 207 6310
fax: +1 813 207 6370

mailto:matthew.snook@mercer.com
www.mercer.com

Services provided by Mercer Health & Benefits LLC

Consulting. Outsourcing. Investments.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

This e-mail and any attachments may be confidential or legally privileged. If you received this message in error or are not the intended recipient, you should destroy the e-mail message and any attachments or copies, and you are prohibited from retaining, distributing, disclosing, or using any information contained herein. Please inform us of the erroneous delivery by return e-mail. Thank you for your cooperation.

FE01