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Agenda Item 6.B.

Exhibit A

First Party Administrator JPA Formation
Feasibility Study
Executive Summary

Executive Summary

Feasibility Study for a First-Party Administrator (FPA)

This executive summary presents key findings and strategic insights from the final feasibility study evaluating the creation of a First Party Administrator (FPA) through a Joint Powers Authority (JPA) model. Commissioned by PRISM and conducted by consultants Reanette Etzler, Jon Pease, and Mike Fleming, the study confirms the viability of a FPA designed to provide claims administration services for workers' compensation and liability claims.

Reimagining Claims Administration: The Value Proposition

Public agencies have long faced underperformance from third-party administrators (TPAs), often marked by high examiner turnover, delayed resolutions, and a lack of alignment with public sector values. The FPA model represents a transformative alternative: a not-for-profit, public agency-owned solution dedicated solely to serving public entities.

Key benefits include:

- **Mission-driven service**—removing profit motives and aligning priorities with public sector needs.
- **Enhanced quality of care**—fewer caseloads (85 vs. the TPA standard of 125–150) for more personalized, attentive service.
- **Top-tier talent**—competitive public sector compensation attracts and retains experienced claims professionals.
- **Cutting-edge tools**—advanced claims system (Spectra) with AI support and real-time reporting capabilities.

A Revolutionary Approach to Claims Management

The study identifies five core advantages that position the FPA as a game-changing model for public agency claims administration:

1. Superior Service Through Lower Caseloads

Lower examiner caseloads (85 vs. industry standard of 125–150) allow for 47% more time per claim. This leads to more thorough claim handling and better outcomes for both the agency and the injured worker.

2. Staff Stability and Consistency

Traditional TPAs suffer from examiner turnover that disrupts service continuity. The FPA resolves this by:

- Offering competitive compensation and manageable workloads.
- Cultivating examiner expertise in public agency claims.
- Retaining professionals committed to long-term public service.

3. Financial Benefits That Outweigh Initial Costs

While start-up costs may be higher than current TPA models, anticipated financial advantages include:

- Faster claim closure that offsets additional administrative costs.
- Reduced overall claim costs through proactive oversight.
- Optional 5% premium credit from PRISM.
- Reinvestment of all resources into service, not profit.

4. Technology and Transparency

With the Spectra claims system and AI integration, the FPA offers:

- Real-time financial and claim data access.
- Custom report generation within one business hour.
- Alerts on claim status changes.
- Mobile accessibility.

5. Unmatched Service Standards

Recommended service metrics far exceed current norms:

- Initial claim acknowledgment: within 4 business hours
- Contact with injured worker: within 24 hours
- Reserve setting: within 10 business days
- Monthly claim updates, 24-hour response time for calls/emails, and real-time documentation

Path Forward: Phased Implementation Strategy

Survey results show strong interest in the FPA concept, with 49.1% of respondents expressing a favorable first impression. A two-phase strategy is proposed:

1. **Program Development Phase** – Establish JPA structure, define workflows, recruit staff, and onboard members.
2. **Operational Phase** – Launch workers’ compensation services, then expand to liability claims.

The process of hiring staff has been recommended in the final feasibility study. However, it could vary based on the final decisions, funding, and direction of the FPA board and consultant

recommendations. Summaries of job descriptions have been provided as an overview and may be adjusted through the process. For instance, it may be determined that an Executive Director is needed from day one, but they are hired for a part-time contract status rather than a full-time employee. This would keep costs down and continuity in the development to have the future full-time Executive Director involved.

By joining this innovative program, your agency will participate in reshaping public sector claims administration - creating a solution by public agencies, for public agencies. Together, we can establish a model that truly aligns with your needs rather than corporate profit motives.

The FPA represents more than just a new claims administrator; it fundamentally reimagines how public agency claims should be managed. Your participation will help build a sustainable solution that benefits the entire public agency community while delivering immediate advantages to your organization's claims management experience.

Key Considerations and Strategic Adjustments

Financial Considerations

- 5% PRISM premium credit to mitigate startup costs
- Initial costs projected will be higher than traditional models
- Economies of scale expected once the program reaches maturity – roughly an inventory of 2,500 weighted claims

Updated Program Assumptions

Consultants were asked to provide updated cost estimates for the FPA program based on revised claim inventory counts and the addition of new resources. The resulting changes to the cost model reflect a more accurate understanding of claim composition and resource needs, as well as strategic adjustments to improve program performance.

Reduced FM Caseloads: From 250 to 170 claims per adjuster with a goal of improving case resolution flow.

This revised staffing assumption is reflected as an adjustment to Staffing Model A found on page 32 of the original report.

Staffing Models				
Caseload	A	B	C	D
Indemnity	85	125	135	150
MO	300	300	300	300
FM	170	250	250	250

Revised Claim Composition: A major update was made to the estimated number of open FM files in the PRISM runoff inventory. The actual number of FM cases was significantly lower than projected in the original Feasibility Study. As a result, a greater proportion of indemnity claims, necessitating adjusted staffing and cost models.

Volume scenarios on page 32 of the original report have been updated to reflect both the smaller FM inventory and to model higher overall claim volumes.

	Volume Scenario				Volume Scenario			
	1	2	3	4	8	9	10	11
Indemnity	335	520	555	2,125	3,475	2,695	3,730	5,230
MO	31	62	68	330	580	426	599	849
FM	401	432	438	700	580	796	969	1,219
Weighted	551	767	808	2,640	4,055	3,306	4,514	6,264

Executive Director Role: The revised model includes the addition of an Executive Director (ED) from the inception of the program. The ED is intended to provide long-term leadership continuity, attention to program strategy, and help drive agency engagement.

The impact of adding the ED role—along with the shift in the indemnity/FM mix—can be seen in the updated headcount table, originally shown on page 5 of the report.

Weighted Claims	868	1,159	1,451	1,743	2,034	2,326
<u>Staffing</u>						
Indemnity	7	9	12	15	18	21
MO	-	-	-	-	-	1
FM	3	3	4	4	4	4
Clerical	2	2	2	3	3	4
AP Tech	1	1	2	2	2	2
Supervisor	2	2	3	4	4	5
Manager	1	1	1	2	2	2
Exec Dir	1	1	1	1	1	1
Total	17	19	25	31	34	40

Increased Salaries: Revised to reflect market rates and retain skilled claims professionals.

The salary estimates are shown in the original report on page 27, adjusted as shown:

Position	Load	Salary	Increase
Examiner	1	90,000	→ 105,000
MO Examiner		65,000	
FM Examiner		65,000	
Clerical	8	50,000	
AP Tech	15	65,000	
Intake			
Supervisor	6	125,000	→ 130,000
Manager	18	150,000	→ 165,000
Exec Dir		225,000	

Cost Impact and Program Viability

Combined adjustments are expected to increase costs by \$20,000–\$25,000 for a program handling 125 open indemnity claims at 2,500 total claims. Nonetheless, the FPA remains a financially feasible option, particularly as claim volumes grow or external funding is secured to support the early development phase.

	Scenarios			
	11 - A	10 - A	9 - A	1 - A
Projected Inventory				
Indemnity	5,230	3,730	2,695	335
MO	849	599	426	31
FM	1,219	969	796	401
Weighted Features	6,264	4,514	3,306	551
Staffing Model	85 per Adj	85 per Adj	85 per Adj	85 per Adj
Operating Expenses				
Salaries	9,240,000	6,735,000	5,175,000	1,070,000
Benefits	3,963,168	2,879,016	2,188,104	464,208
Rent	637,500	462,500	350,000	75,000
Technology	73,440	53,280	40,320	8,640
Bank Cost	303,442	217,642	158,426	23,390
Travel	300,000	240,000	240,000	60,000
Office Exp	61,200	44,400	33,600	7,200
Insurance	250,000	250,000	250,000	250,000
AI - Technology	80,000	80,000	80,000	80,000
Consulting	87,600	84,000	76,800	40,800
Contingency	1,199,708	883,667	687,380	166,339
Estimated Total Cost	\$16,196,058	\$11,929,505	\$9,279,630	\$2,245,577
Cost per 100 weighted Claims	\$258,558	\$264,278	\$280,691	\$407,546
Cost per 125 weighted Claims	\$323,197	\$330,347	\$350,863	\$509,432
Cost Index - % of 1 - A	63%	65%	69%	100%

With these adjustments to resources and cost, the FPA program remains a financially viable proposition. However, the elevated ramp-up costs highlight the need for more agencies with larger claim volumes to join at inception or, alternatively, for increased external subsidy to support the program during its early development phase.

Cost comparisons to current TPA costs are in the original report on page 4. This is the adjusted table:

Weighted Claims	Est FPA	Stand TPA	Difference	
			\$	%
300	860,100	280,000	580,100	207%
600	566,600	280,000	286,600	102%
900	458,400	280,000	178,400	64%
1,200	377,400	280,000	97,400	35%
1,500	378,100	280,000	98,100	35%
1,700	389,500	280,000	109,500	39%
2,000	362,300	280,000	82,300	29%
2,300	363,600	280,000	83,600	30%
2,600	351,100	280,000	71,100	25%
2,900	353,300	280,000	73,300	26%

Even with larger differences in administrative costs, the program will create greater responsiveness and overall cost savings due to decreased claim costs. A reduction of 1 week of claim duration reduces the claim inventory by 5% in this illustration, decreasing claim costs by 4%.

New Losses	Duration	Open Inventory	Annual Claims	Annual Admin		Total Estimated Annual Cost		
				TPA	FPA	Baseline	Adjusted	Marginal Saving
			30,000	2,240	2,880			
5	24	120	3,600,000	268,800	345,600	3,868,800	3,945,600	
5	23	115	3,450,000	257,600	331,200		3,781,200	(164,400)
5	22	110	3,300,000	246,400	316,800		3,616,800	(164,400)
5	21	105	3,150,000	235,200	302,400		3,452,400	(164,400)
5	20	100	3,000,000	224,000	288,000		3,288,000	(164,400)

	Cost per 125	Per File Cost	
		Annually	Monthly
TPA Cost	280,000	2,240	187
FPA Cost @ 85	360,000	2,880	240
Difference			
\$	80,000	640	53
%	29%		

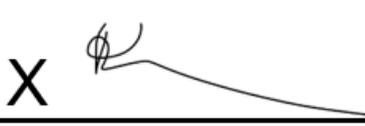
Admin Cost Diff % of Claim Cost	2.1%
Offset of 1 week Claim Duration	-4.2%
Breakeven Reduction in Duration	-3.58 Days

Conclusion: A Model Built for Public Agencies, by Public Agencies

The FPA is more than just an administrative shift—it's a strategic reinvention of how public sector claims should be managed. The consultants recommend moving forward with JPA formation, supported by PRISM's foundational membership and the run-off claim portfolio to ensure viability.

This is a rare opportunity to build a solution that reflects the values, needs, and standards of the public sector—replacing inefficiency and profit-driven service with quality, stability, and transparency. Your agency's participation is critical to shaping a sustainable, cost-effective future for claims administration across California's public sector.

Respectfully Submitted,

	
X	X
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