

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 PURCHASING OPERATIONS
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

November 10, 2009

CHANGE NOTICE NO. 8
TO
CONTRACT NO. 071B9000119
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER/CA (517) 241-0684 Brian Kloeckner
Contract Compliance Inspector: Phil Stoddard		
Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years From: January 1, 1999		To: December 31, 2009
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

NATURE OF CHANGE:

Effective October 1, 2009, through December 31, 2009, the Administration Fee per Contract per month is \$39.51.

Additionally, the DMB Buyer for this Contract is now Brian Kloeckner.

All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON (S):

Per Contractor agreement (email dated 9/15/09), and DMB/Purchasing Operations' approval.

CURRENT AUTHORIZED SPEND LIMIT REMAINS: \$345,288,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 PURCHASING OPERATIONS
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

December 22, 2008

**CHANGE NOTICE NO. 7
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER/CA (517) 373-1080 Melissa Castro, CPPB
Contract Compliance Inspector: Phil Stoddard		
Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years		From: January 1, 1999 To: December 31, 2009
TERMS	N/A	SHIPMENT
		N/A
F.O.B.	N/A	SHIPPED FROM
		N/A
MINIMUM DELIVERY REQUIREMENTS		
N/A		

NATURE OF CHANGE:

Effective immediately, Blue Care Network is hereby added as a subcontractor for the HMO Pilot Program. NOTE: The DMB Buyer for this Contract is now Melissa Castro (517) 373-108. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON (S):

Per agency/vendor concurrence and DMB/Purchasing Operations' approval.

CURRENT AUTHORIZED SPEND LIMIT REMAINS: \$345,288,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 PURCHASING OPERATIONS
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

December 4, 2008

**CHANGE NOTICE NO. 6
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER/CA (517) 373-8622 Malynda Little
Contract Compliance Inspector: Phil Stoddard		
Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years		From: January 1, 1999 To: December 31, 2009
TERMS	N/A	SHIPMENT
		N/A
F.O.B.	N/A	SHIPPED FROM
		N/A
MINIMUM DELIVERY REQUIREMENTS		
N/A		

NATURE OF CHANGE:

Effective immediately, this Contract is hereby **EXTENDED** through December 31, 2009, and **INCREASED** by \$90,800,000.00. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON (S):

Per Ad Board approval on 10/21/2008 and DMB/Purchasing Operations' approval.

REVISED CURRENT AUTHORIZED SPEND LIMIT: \$345,288,911.36

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 PURCHASING OPERATIONS
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

April 3, 2007

CHANGE NOTICE NO. 5
TO
CONTRACT NO. 071B9000119
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER/CA (517) 373-8622 Malynda Little
Contract Compliance Inspector: Phil Stoddard		
Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years		From: January 1, 1999 To: December 31, 2008
TERMS	N/A	SHIPMENT
		N/A
F.O.B.	N/A	SHIPPED FROM
		N/A
MINIMUM DELIVERY REQUIREMENTS		
N/A		

NATURE OF CHANGE:

Effective immediately, this Contract is hereby **INCREASED** by **\$52,800,000.00**.
NOTE: The buyer for this Contract is changed to Malynda Little. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON (S):

Per DMB/Purchasing Operations.

TOTAL REVISED ESTIMATED CONTRACT VALUE: \$254,488,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 ACQUISITION SERVICES
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

July 22, 2003

**CHANGE NOTICE NO. 4
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER (517) 241-1647 Irene Pena
NIGP #962-47 Contract Administrator: Phil Stoddard CS-138 #191S8000193 Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years From: January 1, 1999 To: December 31, 2008		
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

NATURE OF CHANGE:

Effective immediately, the attached HIPAA Business Associate Addendum, Limited Date Set Agreement, and Certification of Group Health Plan Document are hereby incorporated into this contract.

AUTHORITY/REASON (S):

Per DMB/Acquisition Services

TOTAL ESTIMATED CONTRACT VALUE REMAINS: \$201,688,911.36

LIMITED DATA SET AGREEMENT

This Limited Data Set Agreement ("Agreement") is between Blue Cross and Blue Shield of Michigan ("BCBSM") and the State of Michigan, acting by and through the Department of Management and Budget, on behalf of the Michigan Public School Employees Retirement System ("State"). All capitalized terms in this Agreement that are not defined by this Agreement will have the meaning ascribed to those terms by 45 Code of Federal Regulations Parts 160-64, Subparts A and E, as may be amended from time to time ("Privacy Rule").

WITNESSETH AS FOLLOWS:

WHEREAS, the parties have an existing contract(s) or agreement(s) including contract number 071B9000119 ("Contract") and the HIPAA Business Associate Addendum dated June 20, 2003 ("Addendum"); and

WHEREAS, the parties desire to create, use, and disclose Limited Data Sets as described in this Agreement in accordance with applicable requirements of the Administrative Simplification provisions of Title II, Subtitle F of the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations codified at 45 Code of Federal Regulations ("C.F.R.") Parts 160-64 (collectively, "HIPAA");

NOW, THEREFORE, in consideration of these premises and the mutual promises and agreements hereinafter set forth, the State and BCBSM hereby agree as follows:

1. **Creation of Limited Data Sets and De-Identified Health Information**

BCBSM may use Protected Information (as defined in the Addendum) to create Limited Data Sets, in conformance with 45 C.F.R. § 164.514(e)(2), and De-Identified Health Information, in conformance with 45 C.F.R. § 164.514(b). The Limited Data Sets that BCBSM may create include a Limited Data Set containing the minimum necessary amount of Protected Information that BCBSM reasonably needs for any Research or Health Care Operation in which BCBSM engages, as specified in Section 3a below.

2. **Use and Disclosure of Limited Data Sets and De-Identified Health Information**

BCBSM may use and disclose De-Identified Health Information for any purpose, including after any cancellation, termination, expiration, or other conclusion of the Contract or the Addendum. Except as allowed under Section 3 below, BCBSM may use and disclose a Limited Data Set only as permitted in writing by State.

3. **BCBSM's Permitted Use and Disclosure of Limited Data Set**

BCBSM may use and disclose a Limited Data Set that BCBSM created in conformance with Section 1 above for BCBSM's Research or Health Care Operations, provided that BCBSM complies with the obligations of Sections 3a through f below. BCBSM may make such use and disclosure of the Limited Data Set after any cancellation, termination, expiration, or other conclusion of the Contract or Addendum, unless such Contract or Addendum are terminated by State because of BCBSM's breach of privacy obligations under the Contract or the Addendum. BCBSM will not be allowed to use or disclose a Limited Data Set, as provided by this Section 3, if the Contract and the Addendum are terminated by State.

a. **Limitation on Permitted Uses and Disclosures**

BCBSM will limit the uses and disclosures it makes of the Limited Data Set to Research or Health Care Operations, such as:

Business planning and development such as conducting cost-management and planning-related analysis related to managing and operating BCBSM

Formulary development and administration, development and improvement of methods of payment or coverage policies

Customer service, including the provision of data analysis for policyholders, plan sponsors, or other customers, provided that protected health information is not disclosed

b. Prohibition on Unauthorized Use and Disclosure

BCBSM will neither use nor disclose the Limited Data Set for any purpose other than as permitted by Section 3a above, as otherwise permitted in writing by State, or as Required by Law. BCBSM will never use or disclose the Limited Data Set in a manner that would violate the HIPAA Privacy Rule, 45 C.F.R. Part 164, Subpart E, if done by State.

c. Permitted Recipients

In addition to BCBSM, the following entities will be permitted to receive and use the Limited Data Set, provided that they agree to the same restrictions and conditions that apply to BCBSM's use and disclosure of the Limited Data Set pursuant to this Section 3:

Affiliates of BCBSM, Business Associates of BCBSM, Subcontractors and agents of BCBSM, the State and Other Business Associates of State.

d. Information Safeguards

BCBSM will adopt and use appropriate administrative, physical, and technical safeguards to preserve the integrity and confidentiality of the Limited Data Set and to prevent its use or disclosure other than as permitted by this Section 3 or as Required by Law.

e. No Identification

BCBSM will not identify the information contained in the Limited Data Set nor contact any individual who may be the subject of information contained in the Limited Data Set.

f. Reporting Non-Permitted Use or Disclosure

BCBSM will report to State any use or disclosure of the Limited Data Set not permitted by this Section 3 or in writing by State. BCBSM will make the report to State not more than ten (10) days after BCBSM learns of such non-permitted use or disclosure.

4. Cancellation.

A material breach by BCBSM of any provision of this Agreement shall provide grounds for termination of the Contract by the State pursuant to the provisions of Section 5 of the Addendum.

5. No Third Party Beneficiaries.

Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than State, BCBSM and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

6. Notices

Any notices to be provided under this Agreement will be delivered in accordance with Section 18 of the Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of June ~~20~~ 2003.

BLUE CROSS AND BLUE SHIELD OF MICHIGAN

By: Barbara Murphy

Title: DIRECTOR

Date: June 20, 2003

STATE OF MICHIGAN

By: Jane Dina

Title: Buyer

Date: 7/18/03

PLAN SPONSOR'S CERTIFICATION

Department of Management and Budget

June 20, 2003

Blue Cross and Blue Shield of Michigan
600 Lafayette East, MC B614
Detroit, Michigan 48226
Attention: Tracy Glass

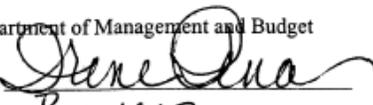
Re: Certification of Group Health Plan Document Amendment

Department of Management and Budget ("Plan Sponsor") is the sponsor of Michigan Public School Employees Retirement System ("Group Health Plan"). Plan Sponsor performs plan administration functions for Group Health Plan and needs access to the Group Health Plan participants' protected health information to carry out those plan administration functions.

Plan Sponsor hereby certifies that the plan document of Group Health Plan has been amended effective July 18, 2003 to comply with the requirements of 45 Code of Federal Regulations § 164.504(f)(2). The amendment provides the required assurance that Plan Sponsor will appropriately safeguard and limit the use and disclosure of the Group Health Plan participants' protected health information that Plan Sponsor may receive from Group Health Plan or BCBSM to perform the plan administration functions.

Accordingly, please provide Plan Sponsor the information Plan Sponsor has requested. Plan Sponsor hereby certifies that such information is the minimum necessary protected health information of Group Health Plan participants for Plan Sponsor to perform the plan administration functions required of it as described in the plan document.

Department of Management and Budget

By: 

Title: Buyer

(Authorized Officer)

HIPAA BUSINESS ASSOCIATE ADDENDUM

The parties to this Business Associate Addendum ("Addendum") are the State of Michigan, acting by and through the Department of Management and Budget, on behalf of the Michigan Public School Employees Retirement System ("State") and Blue Cross Blue Shield of Michigan, ("Contractor"). This Addendum supplements and is made a part of the existing contract(s) or agreement(s) between the parties including the following Contract(s): 071B9000119 ("Contract").

For purposes of this Addendum, MPSERS is (check one):

- Covered Entity ("CE")
- Business Associate ("Associate")

and Contractor is (check one):

- Covered Entity ("CE")
- Business Associate ("Associate")

RECITALS

- A. Pursuant to the terms of the Contract, CE wishes to disclose certain information to Associate, some of which may constitute Protected Information (defined below). In consideration of the receipt of Protected Information, Associate agrees to protect the privacy and security of the information as set forth in this Addendum.
- B. CE and Associate intend to protect the privacy and provide for the security of Protected Information disclosed to Associate pursuant to the Contract in compliance with the Health Insurance Portability and Accountability Act of 1996, Public Law 104-191 ("HIPAA") and regulations promulgated thereunder by the U.S. Department of Health and Human Services and other applicable laws, as amended.
- C. As part of the regulations promulgated under HIPAA, the Privacy Rule and the Security Rule (defined below, but collectively the "HIPAA Regulations") require CE to enter into a contract containing specific requirements with Associate prior to the disclosure of Protected Information, as set forth in, but not limited to, 45 CFR §§ 160.103, 164.314, 164.502(e), and 164.504(e), and contained in this Addendum.
- D. All requirements under this Addendum relating to the Security Rule are not effective until the Security Rule becomes effective on April 21, 2005 or such later date as announced by the federal government ("Security Rule Effective Date").

In consideration of the mutual promises below and the exchange of information pursuant to this Addendum, the parties agree as follows:

1. Definitions.

a. Except as otherwise defined herein, capitalized terms in this Addendum shall have the definitions set forth in the HIPAA Regulations at 45 CFR Part 160 and Subparts A and C of Part 164 ("Security Rule"), and Subparts A and E of Part 164 ("Privacy Rule").

b. "Agreement" means both the Contract and this Addendum.

c. "Contract" means the underlying written agreement or purchase order between the parties for the goods or services to which this Addendum is added.

d. "Electronic Protected Information" shall mean Protected Information in electronic form.

e. "Protected Health Information" or "PHI" shall have the same meaning as the term "protected health information" under the Privacy Rule in 45 CFR § 164.501.

f. "Protected Information" shall mean PHI provided by CE to Associate or created or received by Associate on CE's behalf.

g. "Required by Law" shall have the same meaning as the term "required by law" in 45 CFR § 164.501.

h. "Security Incident" shall have the same meaning as the term "security incident" in 45 CFR § 164.304.

2. Obligations of Associate.

a. Permitted Uses. Associate shall not use Protected Information except for the purpose of performing Associate's obligations under the Contract and as permitted under this Agreement and except as Required by Law. Further, Associate shall not use Protected Information in any manner that would constitute a violation of the HIPAA Regulations if so used by CE, except that Associate may use Protected Information: (i) for the proper management and administration of Associate; (ii) to carry out the legal responsibilities of Associate; or (iii) for Data Aggregation purposes for the Health Care Operations of CE. Additional provisions, if any, governing permitted uses of Protected Information are set forth in Attachment A to this Addendum.

b. Permitted Disclosures. Associate shall not disclose Protected Information in any manner that would constitute a violation of the HIPAA Regulations if disclosed by CE, except that Associate may disclose Protected Information: (i) in a manner permitted pursuant to the Contract and this Addendum; (ii) for the proper management and administration of Associate; (iii) as Required by Law; (iv) for Data Aggregation purposes for the Health Care Operations of

CE; (v) to report violations of law to appropriate federal or state authorities, consistent with 45 CFR § 164.502(j)(1); or (vi) to carry out the legal responsibilities of Associate consistent with 45 CFR § 164.504(e)(4)(i)(B). To the extent that Associate discloses Protected Information to a third party as provided in subsections 2.b(ii) or (vi) above, Associate must obtain, prior to making any such disclosure: (i) reasonable assurances from such third party that such Protected Information will be held confidential as provided pursuant to this Addendum and only disclosed as Required by Law or for the purposes for which it was disclosed to such third party; and (ii) an agreement from such third party to promptly notify Associate of any breaches of confidentiality of the Protected Information or any Security Incident (after the Security Rule Effective Date), to the extent it has obtained knowledge of such breach. Additional provisions, if any, governing permitted disclosures of Protected Information are set forth in Attachment A.

c. Appropriate Safeguards. Associate shall implement appropriate safeguards as are necessary to protect against the use or disclosure of Protected Information other than as permitted by the Contract or this Addendum.

d. Reporting of Improper Use or Disclosure. Associate shall report to CE in writing any use or disclosure of Protected Information, whether suspected or actual, other than as provided for by the Contract and this Addendum within ten (10) days of becoming aware of such use or disclosure.

e. Associate's Agents. If Associate uses one or more subcontractors or agents to provide services under this Agreement, and such subcontractors or agents receive or have access to Protected Information, each subcontractor or agent shall sign an agreement with Associate containing substantially the same provisions as this Addendum. Associate shall implement and maintain sanctions against agents and subcontractors that violate such restrictions and conditions and shall mitigate, to the extent practicable, the effects of any such violation.

f. Access to Protected Information. Associate shall make Protected Information regarding an Individual maintained by Associate or its agents or subcontractors in Designated Record Sets available to such Individual for inspection and copying in order to meet the requirements under 45 CFR § 164.524. Any Individual request for access must be submitted on standard request forms available from Associate. If CE receives a request for access, CE, in addition to addressing the request on its behalf, will forward the request in writing to Associate.

g. Amendment of Protected Information. Associate agrees to make any amendment(s) to Protected Information in a Designated Record Set to meet the requirements of 45 CFR § 164.526 at the request of an Individual. Any Individual amendment requests must be submitted on standard forms available from Associate. If CE receives a request for an amendment, CE, in addition to addressing the request on its on behalf, will forward the request in writing to Associate.

h. Accounting Rights. Associate agrees to respond to a request by an Individual for an accounting of disclosures of Protected Information in accordance with, 45 CFR § 164.528. Associate agrees to document such disclosures of Protected Information and information related to such disclosures as would be required to respond to a request by an Individual for an

accounting of disclosures of Protected Information in accordance with 45 C.F.R. § 164.528. Any Individual requests for a report of accounting must be submitted on standard request forms available from Associate. If CE receives a request for an accounting, CE, in addition to addressing the request on its own behalf, will forward the request, in writing, to Associate.

i. Governmental Access to Records. Associate shall make its internal practices, books and records relating to the use and disclosure of Protected Information available to the Secretary of the U.S. Department of Health and Human Services (the "Secretary"), in a time and manner designated by the Secretary, for purposes of determining CE's compliance with applicable HIPAA Regulations.

j. Minimum Necessary. Associate (and its agents or subcontractors) shall only request, use and disclose the minimum amount of Protected Information necessary to accomplish the purpose of the request, use or disclosure, in accordance with the requirements of the Privacy Rule, including, but not limited to 45 CFR §§ 164.502(b) and 164.514(d).

k. Reserved.

l. Retention of Protected Information. Notwithstanding Section 5(d) of this Addendum, Associate and its subcontractors or agents shall retain all Protected Information throughout the term of the Contract and shall continue to maintain the information required under Section 2(h) of this Addendum for a period of six (6) years from the date of creation or the date when it last was in effect, whichever is later, or as Required by Law. This obligation shall survive the termination of the Contract.

m. Destruction of Protected Information. Associate agrees to implement policies and procedures for the final disposition of Electronic Protected Information and/or the hardware and equipment on which it is stored, including but not limited to, removal before re-use after the Security Rule Effective Date.

n. Notification of Breach. During the term of the Contract or this Addendum, Associate shall notify CE within ten (10) days of becoming aware of any unauthorized use or disclosure of Protected Information and/or any use or disclosure of data in violation of any applicable federal or state laws or regulations. Associate shall take (i) prompt corrective action to cure any such deficiencies and (ii) any action pertaining to such unauthorized disclosure required by applicable federal and state laws and regulations. CE and Associate will reasonably cooperate to mitigate, to the extent practicable, any harmful effect that is known to either of a use or disclosure of Protected Information or, after the Security Rule Effective Date, of a Security Incident, contrary to the terms of the Contract or this Addendum.

o. Audits, Inspection and Enforcement. CE and its representatives may audit Associate in accordance with the provisions of the audit provision of the Contract, except that instead of an audit of claims, it will be an audit to verify Associate's compliance with this Addendum for the twenty-four (24) month (or less) period prior to the notice from CE to Associate; provided, however, that: (i) Associate and CE shall mutually agree in advance upon the scope, timing and location of such an inspection; (ii) CE shall protect the confidentiality of

all confidential and proprietary information of Associate to which CE has access during the course of such inspection; and (iii) CE or Associate shall execute a nondisclosure agreement, if requested by Associate or CE. The fact that CE inspects, or fails to inspect, or has the right to inspect, Associate's facilities, systems, books, records, agreements, policies and procedures does not relieve Associate of its responsibility to comply with this Addendum, nor does CE's (i) failure to detect or (ii) detection, but failure to notify Associate or require Associate's remediation of any unsatisfactory practices, constitute acceptance of such practice or a waiver of CE's enforcement rights under this Agreement.

p. After the Security Rule Effective Date, Associate shall be responsible for using Security Measures to reasonably and appropriately maintain and ensure the Confidentiality, Integrity, and Availability of Electronic Protected Information transmitted to CE pursuant to this Agreement, in accordance with the standards and requirements of the HIPAA Regulations, until such Protected Information is received by CE, and in accordance with any specifications set forth in Attachment A.

q. Confidential Communication Request. Associate agrees to respond to a request by an Individual for confidential communications of Protected Information in accordance with 45 C.F.R. § 164.522.

r. Restriction of Uses. Associate agrees to respond to a request by an Individual for restriction of uses and disclosures of Protected Information in accordance with 45 C.F.R. § 164.522. Any restriction requests must be submitted on standard request forms available from Associate. Associate will generally not agree to restriction requests. If Associate does agree, Associate will comply with the restriction until it is terminated by the Individual or by Associate.

3. Obligations of CE.

a. Safeguards During Transmission. After the Security Rule Effective Date, CE agrees that it will use Security Measures to reasonably and appropriately maintain and ensure the Confidentiality, Integrity, and Availability of Protected Information transmitted to Associate pursuant to this Agreement, in accordance with the standards and requirements of the HIPAA Regulations, until such Protected Information is received by Associate, and in accordance with any specifications set forth in Attachment A.

b. Notice of Changes. CE shall notify Associate of any limitation(s) in its notice of privacy practices of CE in accordance with 45 C.F.R. § 164.520, to the extent that such limitation may affect Associate's use or disclosure of Protected Information.. To the extent that it may affect Associate's permitted use or disclosure of Protected Information, CE shall notify Associate of any restriction on the use or disclosure of Protected Information that CE has agreed to in accordance with 45 CFR § 164.522. CE shall notify Associate of any changes in, or revocation of, permission by Individual to use or disclose Protected Information, to the extent that such changes may affect Associate's use or disclosure of Protected Information.

4. Term. This Addendum shall continue in effect as to each Contract to which it applies until such Contract is terminated or is replaced with a new contract between the parties

containing provisions meeting the requirements of the HIPAA Regulations, whichever first occurs. However, certain obligations will continue as specified in this Addendum.

5. Termination.

a. Material Breach. In addition to any other provisions in the Contract regarding breach, a material breach by Associate of any provision of this Addendum shall provide grounds for termination of the Contract by CE pursuant to the provisions of the Contract covering termination for cause. If the Contract contains no express provisions regarding termination for cause, the following shall apply to termination for breach of this Addendum, subject to 5.b.:

(1) Default. If Associate refuses or fails to timely perform any of the provisions of this Addendum, CE may notify Associate in writing of the non-performance, and if not corrected within thirty (30) days, CE may immediately terminate the Agreement. Associate shall continue performance of the Agreement to the extent it is not terminated.

(2) Associate's Duties. Notwithstanding termination of the Agreement, and subject to any directions from CE, Associate shall take timely, reasonable and necessary action to protect and preserve property in the possession of Associate in which CE has an interest.

(3) Compensation. Payment for completed performance delivered and accepted by CE shall be at the Contract price.

(4) Erroneous Termination for Default. If after such termination it is determined, for any reason, that Associate was not in default, or that Associate's action/inaction was excusable, such termination shall be treated as a termination for convenience, and the rights and obligations of the parties shall be the same as if the contract had been terminated for convenience, as described in this Addendum or in the Contract.

b. Reasonable Steps to Cure Breach. If CE knows of a pattern of activity or practice of Associate that constitutes a material breach or violation of the Associate's obligations under the provisions of this Addendum or another arrangement and does not terminate the Agreement pursuant to Section 5(a), then CE shall take reasonable steps to cure such breach or end such violation, as applicable. If CE's efforts to cure such breach or end such violation are unsuccessful, CE shall either (i) terminate the Agreement, if feasible or (ii) if termination of the Agreement is not feasible, CE shall report Associate's breach or violation to the Secretary of the Department of Health and Human Services.

c. Reserved.

d. Effect of Termination.

(1) Except as provided in paragraph (2) of this subsection, upon termination of the Agreement, for any reason, Associate shall return or destroy all Protected Information that Associate or its agents or subcontractors still maintain in any form, and shall retain no copies of such Protected Information. If Associate elects to destroy the Protected Information, Associate shall certify in writing to CE that such Protected Information has been destroyed.

(2) If Associate believes that returning or destroying the Protected Information is not feasible, including but not limited to, a finding that record retention requirements provided by law make return or destruction infeasible, Associate shall promptly provide CE notice of the conditions making return or destruction infeasible. Upon mutual agreement of CE and Associate that return or destruction of Protected Information is infeasible, Associate shall continue to extend the protections of Sections 2(a), 2(b), 2(c), 2(d) and 2(e) of this Addendum to such information, and shall limit further use of such Protected Information to those purposes that make the return or destruction of such Protected Information infeasible.

6. Reserved.

7. No Waiver of Immunity. No term or condition of this Agreement shall be construed or interpreted as a waiver, express or implied, of any of the immunities, rights, benefits, protection, or other provisions of the Michigan Governmental Immunity Act, MCL 691.1401, *et seq.*, the Federal Tort Claims Act, 28 U.S.C. 2671 *et seq.*, or the common law, as applicable, as now in effect or hereafter amended.

8. Reserved.

9. Disclaimer. CE makes no warranty or representation that compliance by Associate with this Addendum, HIPAA or the HIPAA Regulations will be adequate or satisfactory for Associate's own purposes. Associate is solely responsible for all decisions made by Associate regarding the safeguarding of Protected Information.

10. Reserved.

11. Amendment.

a. Amendment to Comply with Law. The parties acknowledge that state and federal laws relating to data security and privacy are rapidly evolving and that amendment of this Addendum may be required to provide for procedures to ensure compliance with such developments. The parties specifically agree to take such action as is necessary to implement the standards and requirements of HIPAA, the HIPAA Regulations, and other applicable laws relating to the security or privacy of Protected Information. Upon the request of either party, the other party agrees to promptly enter into negotiations concerning the terms of an amendment to this Addendum embodying written assurances consistent with the standards and requirements of HIPAA, the HIPAA Regulations, or other applicable laws. A party may terminate the Agreement upon thirty (30) days written notice in the event the other party does not promptly enter into negotiations to amend this Agreement when requested by the first party pursuant to this Section.

b. Amendment of Attachment A. Attachment A may be modified or amended by mutual agreement of the parties in writing from time to time without formal amendment of this Addendum.

12. Assistance in Litigation or Administrative Proceedings. Each party shall make itself, and any subcontractors, employees or agents assisting it in the performance of its obligations under this Agreement, to the extent that the time required of them is reasonable under the circumstances, available to the other party to testify as witnesses, or otherwise, in the event of litigation or administrative proceedings being commenced against a party, its directors, officers or employees, departments, agencies, or divisions based upon a claimed violation of HIPAA, the HIPAA Regulations, or other laws relating to security and privacy of Protected Information, except where the other party or its subcontractor, employee or agent is a named adverse party.

13. No Third Party Beneficiaries. Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than CE, Associate and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

14. Effect on Contract. Except as specifically required to implement the purposes of this Addendum, or to the extent inconsistent with this Addendum, all other terms of the Contract shall remain in force and effect. This Addendum is incorporated into the Contract as if set forth in full therein. The parties expressly acknowledge and agree that sufficient mutual consideration exists to make this Addendum legally binding in accordance with its terms. Associate and CE expressly waive any claim or defense that this Addendum is not part of the Agreement between the parties under the Contract.

15. Interpretation and Order of Precedence. This Addendum is incorporated into and becomes part of each Contract identified herein. Together, this Addendum and each separate Contract constitute the "Agreement" of the parties with respect to their Business Associate relationship under HIPAA and the HIPAA Regulations. The provisions of this Addendum shall prevail over any provisions in the Contract that may conflict or appear inconsistent with any provision in this Addendum. This Addendum and the Contract shall be interpreted as broadly as necessary to implement and comply with HIPAA and the HIPAA Regulations. The parties agree that any ambiguity in this Addendum shall be resolved in favor of a meaning that complies and is consistent with HIPAA and the HIPAA Regulations. This Addendum supercedes and replaces any previous separately executed HIPAA addendum between the parties. In the event of any conflict between the mandatory provisions of the HIPAA Regulations and the provisions of this Addendum, the HIPAA Regulations, as applicable, shall control. Where the provisions of this Addendum differ from those mandated by the HIPAA Regulations, but are nonetheless permitted by the HIPAA Regulations, the provisions of this Addendum shall control.

16. Effective Date. This Addendum is effective upon receipt of the last approval necessary and the affixing of the last signature required. The provisions related to the requirements of the Security Rule are not effective until the Security Rule Effective Date.

17. Survival of Certain Contract Terms. Notwithstanding anything herein to the contrary, Associate's obligations under Section 5(d) and record retention laws ("Effect of Termination") and Section 13 ("No Third Party Beneficiaries") shall survive termination of this Agreement and shall be enforceable by CE as provided herein in the event of such failure to perform or comply by Associate.

18. Representatives and Notice.

a. Representatives. For the purpose of this Agreement, the individuals identified in the Contract shall be the representatives of the respective parties. If no representatives are identified in the Contract, the individuals listed below are hereby designated as the parties' respective representatives for purposes of the Agreement. Either party may from time to time designate in writing new or substitute representatives.

b. Notices. All required notices shall be in writing and shall be hand delivered or given by certified or registered mail to the representatives at the addresses set forth below.

Covered Entity Representative:
State of Michigan
Attn: Irene Pena
DMB, Acquisition Services
Mason Building 2nd Floor
530 W. Allegan
Lansing, MI 48909

With copy to:
State of Michigan
Attn: Phil Stoddard
DMB, Office of Retirement Services, MPSERS

Business Associate Representative:
Blue Cross and Blue Shield of Michigan
Attention: Corporate Secretary
600 Lafayette East, MC 1929
Detroit, Michigan 48226

Any notice given to a party under this Addendum shall be deemed effective, if addressed to such party, upon: (i) delivery, if hand delivered; or (ii) the third (3rd) Business Day after being sent by certified or registered mail.

IN WITNESS WHEREOF, the parties hereto have duly executed this Addendum as of June 20, 2003.

Associate	Covered Entity
BLUE CROSS AND BLUE SHIELD OF MICHIGAN	STATE OF MICHIGAN
By: <u>Barbara Murphy</u>	By: <u>Irene Pena</u>
Print Name: <u>BARBARA MURPHY</u>	Print Name: <u>Irene Pena</u>
Title: <u>DIRECTOR</u>	Title: <u>Buyer</u>

ATTACHMENT A

This Attachment sets forth additional terms to the HIPAA Business Associate Addendum dated _____, between the State of Michigan and Blue Cross Blue Shield of Michigan ("Addendum") and is effective as of _____ (the "Attachment Effective Date"). This Attachment applies to the specific contracts listed below covered by the Addendum. This Attachment may be amended from time to time as provided in Section 11(b) of the Addendum.

1. Specific Contract Covered. This Attachment applies to the following specific contract covered by the Addendum: _____

2. Additional Permitted Uses. In addition to those purposes set forth in Section 2(a) of the Addendum, Associate may use Protected Information as follows:

3. Additional Permitted Disclosures. In addition to those purposes set forth in Section 2(b) of the Addendum, Associate may disclose Protected Information as follows:

4. Subcontractor(s). The parties acknowledge that the following subcontractors or agents of Associate shall receive Protected Information in the course of assisting Associate in the performance of its obligations under the Contract and the Addendum:

5. Receipt. Associate's receipt of Protected Information pursuant to the Contract and Addendum shall be deemed to occur as follows, and Associate's obligations under the Addendum shall commence with respect to such Protected Information upon such receipt:

6. Additional Restrictions on Use of Data. CE is a Business Associate of certain other Covered Entities and, pursuant to such obligations of CE, Associate shall comply with the following restrictions on the use and disclosure of Protected Information:

7. Additional Terms. [This section may include specifications for disclosure format, method of transmission, use of an intermediary, use of digital signatures or PKI, authentication, additional security of privacy specifications, de-identification or re-identification of data and other additional terms.]

Associate

Covered Entity

BLUE CROSS BLUE SHIELD OF MICHIGAN

STATE OF MICHIGAN

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

Formulary development and administration, development and improvement of methods of payment or coverage policies

Customer service, including the provision of data analysis for policyholders, plan sponsors, or other customers, provided that protected health information is not disclosed

b. Prohibition on Unauthorized Use and Disclosure

BCBSM will neither use nor disclose the Limited Data Set for any purpose other than as permitted by Section 3a above, as otherwise permitted in writing by State, or as Required by Law. BCBSM will never use or disclose the Limited Data Set in a manner that would violate the HIPAA Privacy Rule, 45 C.F.R. Part 164, Subpart E, if done by State.

c. Permitted Recipients

In addition to BCBSM, the following entities will be permitted to receive and use the Limited Data Set, provided that they agree to the same restrictions and conditions that apply to BCBSM's use and disclosure of the Limited Data Set pursuant to this Section 3:

Affiliates of BCBSM, Business Associates of BCBSM, Subcontractors and agents of BCBSM, the State and Other Business Associates of State.

d. Information Safeguards

BCBSM will adopt and use appropriate administrative, physical, and technical safeguards to preserve the integrity and confidentiality of the Limited Data Set and to prevent its use or disclosure other than as permitted by this Section 3 or as Required by Law.

e. No Identification

BCBSM will not identify the information contained in the Limited Data Set nor contact any individual who may be the subject of information contained in the Limited Data Set.

f. Reporting Non-Permitted Use or Disclosure

BCBSM will report to State any use or disclosure of the Limited Data Set not permitted by this Section 3 or in writing by State. BCBSM will make the report to State not more than ten (10) days after BCBSM learns of such non-permitted use or disclosure.

4. Cancellation.

A material breach by BCBSM of any provision of this Agreement shall provide grounds for termination of the Contract by the State pursuant to the provisions of Section 5 of the Addendum.

5. No Third Party Beneficiaries.

Nothing express or implied in this Agreement is intended to confer, nor shall anything herein confer, upon any person other than State, BCBSM and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

6. Notices

Any notices to be provided under this Agreement will be delivered in accordance with Section 18 of the Addendum.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of June 20, 2003.

BLUE CROSS AND BLUE SHIELD OF MICHIGAN

By: Barbara Murphy

Title: DIRECTOR

Date: June 20, 2003

STATE OF MICHIGAN

By: Steve Pena

Title: Buyer

Date: July 18, 2003

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

December 30, 2002

**CHANGE NOTICE NO. 3
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER (517) 241-1647 Irene Pena
NIGP #962-47 Contract Administrator: Phil Stoddard		CS-138 #191S8000193
Administration of Master Health Care Plan - Department of Management & Budget/MPSERS		
CONTRACT PERIOD: 5 years From: January 1, 1999		To: December 31, 2008
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

NATURE OF CHANGE:

Effective January 1, 2003, this contract is hereby EXTENDED through December 31, 2008.

Effective 2004, the following rates are in effect:

- 2004 - \$37.52 per member per month
- 2005 - \$39.02 per member per month
- 2006 - \$40.59 per member per month
- 2007 - \$42.21 per member per month
- 2008 - \$43.90 per member per month

Also, the following information is hereby incorporated into this contract per agreement between the State of Michigan and BCBSM:

- If, before the beginning of any contract year, the Retirement System cancels or otherwise divests itself of its remaining HMO contracts, then the retention increases of 4 percent will be reduced to 3.5 percent for the ensuing three contract years or for the remaining duration of the contract if less than three years.
- A refund to the Retirement System if the Blues determine the total retention fee is more than the amount needed.
- The Blues will support the Retirement System's efforts to combine contracts for married retirees that are currently on separate contracts.
- The Blues reengineering team will focus its efforts to reduce administrative expenses on the Retirement System group.

ESTIMATED CONTRACT VALUE REMAINS: \$201,688,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

December 19, 2002

**CHANGE NOTICE NO. 2
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER (517) 241-1647 Irene Pena
NIGP #962-47 Contract Administrator: Phil Stoddard CS-138 #191S8000193 Administration of Master Health Care Plan - Department of Management & Budget/MPSERS		
CONTRACT PERIOD: 5 years From: January 1, 1999		To: December 31, 2008
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

NATURE OF CHANGE:

**Effective January 1, 2003, this contract is hereby EXTENDED through December 31, 2008.
 Effective 2004, the following rates are in effect:**

- 2004 - \$37.52 per member per month**
- 2005 - \$39.02 per member per month**
- 2006 - \$40.59 per member per month**
- 2007 - \$42.21 per member per month**
- 2008 - \$42.90 per member per month**

AUTHORITY/REASON:

Per mutual agreement.

ESTIMATED CONTRACT VALUE REMAINS: \$201,688,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

February 13, 2001

**CHANGE NOTICE NO. 1
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER (517) 241-1647 Irene Pena
NIGP #962-47	Contract Administrator: Phil Stoddard	CS-138 #191S8000193
Administration of Master Health Care Plan - Department of Management & Budget/MPSERS		
CONTRACT PERIOD: 5 years	From: January 1, 1999	To: December 31, 2003
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

NATURE OF CHANGE:

Effective January 1, 2001 an administrative fee increase to \$0.09 per month per contract (enrolled retirees and surviving beneficiaries) is approved and incorporated into this contract.

AUTHORITY/REASON:

Per mutual agreement.

INCREASE: \$348,291.36

TOTAL REVISED ESTIMATED CONTRACT VALUE: \$201,688,911.36

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

December 4, 1998

**NOTICE
 TO
 CONTRACT NO. 071B9000119
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR		TELEPHONE Barbara Murphy (313) 225-0733
Blue Cross/Blue Shield of Michigan Attn: Barbara Murphy 600 Lafayette East MCJ411 Detroit, MI 48226		
		BUYER (517) 241-1218 Chris Fuller
NIGP #962-47 Contract Administrator: Phil Stoddard CS-138 #191S8000193 Administration of Master Health Care Plan - Department of Management & Budget/MPERS		
CONTRACT PERIOD: 5 years From: January 1, 1999 To: December 31, 2003		
TERMS	N/A	SHIPMENT N/A
F.O.B.	N/A	SHIPPED FROM N/A
MINIMUM DELIVERY REQUIREMENTS N/A		

The terms and conditions of this Contract are those of ITB #8000931 this Contract Agreement and the vendor's quote dated 88-11-98. In the event of any conflicts between the specifications, terms and conditions indicated by the State and those indicated by the vendor, those of the State take precedence.

Total Estimated Contract Value: \$201,340,620.00

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DEFINITION OF TERMS

TERMS	DEFINITIONS
CONTRACT	Binding Agreement Entered Into By The State Of Michigan And A Particular Vendor; Also "Blanket Purchase Order (BPO)."
CONTRACTOR	The Successful Bidder Who Is Awarded A CONTRACT.
DMB	Michigan Department Of Management And Budget
RFP	Request For Proposal - A Term Used By The State To Solicit Proposals For Services Such As Consulting. Typically Used When The Requesting Agency Requires Vendor Assistance In Identifying An Acceptable Manner Of Solving A Problem.
ITB	Invitation To Bid - A Generic Form Used By The Office Of Purchasing To Solicit Quotations For Services Or Commodities. The ITB Serves As The Document For Transmitting The RFP To Interested Potential Bidders.
SUCCESSFUL BIDDER	The Bidder(s) Awarded A Contract As A Result Of The Solicitation.
STATE	The State Of Michigan
EXPIRATION	Except Where Specifically Provided For In The Contract, The Ending And Termination Of The Contractual Duties And Obligations Of The Parties To The Contract Pursuant To A Mutually Agreed Upon Date.
CANCELLATION	Ending All Rights And Obligations Of The State And Contractor, Except For Any Rights And Obligations That Are Due And Owing.

SECTION I
CONTRACTUAL TERMS & CONDITIONS

I-A PURPOSE

The State of Michigan, Department of Management, Office of Purchasing, being the Contracting Authority for the State, hereby enters into a Contractual Agreement, referred to herein as "Contract" with Blue Cross/Blue Shield of Michigan for the Michigan Public School Employees Retirement System (MPSERS).

The purpose of this agreement is to obtain the services of the Contractor to provide Administration of the Master Health Care Plan. This is a fixed price Contract, see Appendix A. The term of the Contract shall be January 1, 1999 and ending December 31, 2003.

I-B TERM OF CONTRACT

The State of Michigan is not liable for any cost incurred by any bidder prior to signing of this Contract by all parties. The activities in this Contract cover the period January 1, 1999 through December 31, 2003. The State fiscal year is October 1st through September 30th. The prospective Contractor should realize that payments in any given fiscal year are contingent upon enactment of legislative appropriations.

I-C COST LIABILITY

The State of Michigan assumes no responsibility or liability for costs incurred by the Contractor prior to the signing of this Contract. Total liability of the State is limited to the terms and conditions of this Contract.

I-D PRIME CONTRACTOR RESPONSIBILITIES

The Prime Contractor will be required to assume responsibility for all contractual activities offered in this proposal whether or not that Contractor performs them. Further, the State will consider the Prime Contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from the anticipated Contract. If any part of the work is to be subcontracted, Contractor should include a list of subcontractors, including firm name and address, contact person, complete description of work to be subcontracted, and descriptive information concerning subcontractor's organizational abilities. The State reserves the right to approve subcontractors for this project and to require the Primary Contractor to replace subcontractors found to be unacceptable. The Contractor is totally responsible for adherence by the subcontractor to all provisions of the Contract.

I-E NEWS RELEASES

News releases pertaining to this document or the services, study, data, or project to which it relates will not be made without prior written State approval, and then only in accordance with the explicit written instructions from the State. No results

of the program are to be released without prior approval of the State and then only to persons designated.

I-F CONFIDENTIALITY

The Contractor will be bound by the same standards of confidentiality as the State employees. Contractor may not release any products or portions of products resulting from the Contract without approval of the Contract Administrator.

I-G DISCLOSURE

All information in a bidder's proposal and any Contract resulting from this ITB is subject to the provisions of the Freedom of Information Act, 1976 Public Act No. 442, as amended, MCL 15.231, *et seq.*

I-H ACCOUNTING RECORDS

The Contractor will be required to maintain all pertinent financial and accounting records and evidence pertaining to the Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan. Financial and accounting records shall be made available, upon request, to the State of Michigan, its designees, or the Michigan Department of Auditor General at any time during the Contract period and any extension thereof, and for three (3) years from the expiration date and final payment on the Contract or extension thereof.

I-I INDEMNIFICATION

1. General Indemnification

The Contractor shall indemnify, defend and hold harmless the State, its departments, divisions, agencies, sections commissions, officers, employees and agents, from and against all losses, liabilities, penalties, fines, damages and claims (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties), arising from or in connection with any of the following:

- (a) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from (1) the product provided or (2) performance of the work, duties, responsibilities, actions or omissions of the Contractor or any of its subcontractors under this Contract;
- (b) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from a breach by the Contractor of any representation or warranty made by the Contractor in the Contract;
- (c) any claim, demand, action citation, or legal proceeding against the State, its employees and agents arising out of or related to occurrences that the Contractor is required to insure against as provided for in this Contract;

- (d) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from the death or bodily injury of any person, or the damage, loss or destruction of any real or tangible personal property, in connection with the performance of services by the Contractor, by any of its subcontractors, by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable; provided, however, that this indemnification obligation shall not apply to the extent, if any, that such death, bodily injury or property damage is caused solely by the negligence or reckless or intentional wrongful conduct of the State;
- (e) any claim, demand, action, citation or legal proceeding against the State, its employees and agents which results from an act or omission of the Contractor or any of its subcontractors in its or their capacity as an employer of a person.

2. Patent/Copyright Infringement Indemnification

The Contractor shall indemnify, defend and hold harmless the State, its departments, division, agencies, sections, commissions, officers, employees and agents from and against all losses, liabilities, penalties, fines, damages (including taxes), and all related costs and expenses (including reasonable attorney's fees and disbursements, costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service, or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States or foreign patent, copyright, trade secret or other proprietary right of any person or entity, which right is enforceable under the laws of the United States. In addition, should the equipment, software, commodity, or service, or the operation thereof, become or in the Contractor's opinion, be likely to become, the subject of a claim of infringement, the Contractor shall, at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if such option is not reasonably available to the Contractor, (ii) replace or modify the same with equipment, software, commodity or service of equivalent function and performance so that it becomes non-infringing, or, if such option is not reasonably available to Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.

3. Indemnification Obligation Not Limited

In any and all claims against the State Of Michigan, or any of its departments, divisions, agencies, sections, commissions, officers, employees and agents,

by any employee of the Contractor or any of its subcontractors, the indemnification obligation under the Contract shall not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its subcontractors under worker's disability compensation acts, disability benefits acts, or other employee benefits acts. This indemnification clause is intended to be comprehensive. Any overlap in subclauses, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other subclause.

4. Continuation of Indemnification Obligation

The duty to indemnify will continue in full force and effect notwithstanding the expiration or early termination of the Contract with respect to any claims based on facts or conditions which occurred prior to termination.

I-J CONTRACTOR'S LIABILITY INSURANCE

The Contractor shall purchase and maintain such insurance as will protect him/her from claims set forth below which may arise out of or result from the Contractor's operations under the Contract (Purchase Order), whether such operations be by himself/herself or by any subcontractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:

- (1) Claims under workers' disability compensation, disability benefit and other similar employee benefit act. A non-resident Contractor shall have insurance for benefits payable under Michigan's Workers' Disability Compensation Law for any employee resident of and hired in Michigan; and as respects any other employee protected by workers' disability compensation laws of any other State the Contractor shall have insurance or participate in a mandatory State fund to cover the benefits payable to any such employee.
- (2) Claims for damages because of bodily injury, occupational sickness or disease, or death of his/her employees.
- (3) Claims for damages because of bodily injury, sickness or disease, or death of any person other than his/her employees, subject to limits of liability of not less than \$300,000 each occurrence and, when applicable \$300,000 annual aggregate, for non-automobile hazards and as required by law for automobile hazards.
- (4) Claims for damages because of injury to or destruction of tangible property, including loss of use resulting therefrom, subject to a limit of liability of not less than \$50,000 each occurrence for non-automobile hazards and as required by law for automobile hazards.
- (5) Insurance for Subparagraphs (3) and (4) non-automobile hazards on a combined single limit of liability basis shall not be less than \$300,000 each occurrence and when applicable, \$300,000 annual aggregate.

The insurance shall be written for not less than any limits of liability herein specified or required by law, whichever is greater, and shall include contractual liability insurance as applicable to the Contractor's obligations under the Indemnification clause of the Contract (Purchase Order).

BEFORE STARTING WORK THE CONTRACTOR'S INSURANCE AGENCY MUST FURNISH TO THE DIRECTOR OF THE OFFICE OF PURCHASING, ORIGINAL CERTIFICATE(S) OF INSURANCE VERIFYING LIABILITY COVERAGE. THE CONTRACT OR PURCHASE ORDER NO. MUST BE SHOWN ON THE CERTIFICATE OF INSURANCE TO ASSURE CORRECT FILING. These Certificates shall contain a provision that coverage's afforded under the policies will not be canceled until at least fifteen days prior written notice bearing the Contract Number or Purchase Order Number has been given to the Director of Purchasing.

I-K LITIGATION

The State, its departments, and its agents shall not be responsible for representing or defending the Contractor, Contractor's personnel, or any other employee, agent, or subcontractor of the Contractor, named as a defendant in any lawsuit or in connection with any tort claim.

The State and the Contractor agree to make all reasonable efforts to cooperate with each other in the defense of any litigation brought by any person or persons not a party to the Contract.

The Contractor shall submit quarterly litigation reports providing the following details for all criminal and civil litigation arising out of, or relevant to, the performance of the Contract in which the Contractor or subcontractor, or the Contractor's insurers or insurance agent are parties:

Case number and docket number
name of plaintiff(s) and defendant(s)
names and addresses of all counsel appearing
nature of claim
status of case

The provisions of this section shall survive the expiration or termination of the Contract.

I-L CANCELLATION

(a) The State may cancel the Contract for default of the Contractor. Default is defined as the failure of the Contractor to fulfill the obligations of the quotation or Contract. In case of default by the Contractor, the State may immediately and/or upon 30 days prior written notice to the Contractor cancel the Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees, and procure the services from other sources, and hold the Contractor responsible for any excess costs occasioned thereby.

- (b) The State may cancel the Contract in the event the State no longer needs the services or products specified in the Contract, or in the event program changes, changes in laws, rules or regulations, relocation of offices occur, or the State determines that statewide implementation of the Contract is not feasible, or if prices for additional services requested by the State are not acceptable to the State. The State may cancel the Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees by giving the Contractor written notice of such cancellation 30 days prior to the date of cancellation.**
- (c) The State may cancel the Contract for lack of funding. The Contractor acknowledges that, if this Contract extends for several fiscal years, continuation of this Contract is subject to appropriation of funds for this project. If funds to enable the State to effect continued payment under this Contract are not appropriated or otherwise made available, the State shall have the right to terminate this Contract without penalty at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of termination to the Contractor. The State shall give the Contractor written notice of such non-appropriation within 30 days after it receives notice of such non-appropriation.**
- (d) The State may immediately cancel the Contract without further liability to the State its departments, divisions, agencies, sections, commissions, officers, agents and employees if the Contractor, an officer of the Contractor, or an owner of a 25% or greater share of the Contractor, is convicted of a criminal offense incident to the application for or performance of a State, public or private Contract or subcontract; or convicted of a criminal offense including but not limited to any of the following: embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, attempting to influence a public employee to breach the ethical conduct standards for State of Michigan employees; convicted under State or federal antitrust statutes; or convicted of any other criminal offense which in the sole discretion of the State, reflects on the Contractor's business integrity.**
- (e) The State may immediately cancel the Contract in whole or in part by giving notice of termination to the Contractor if any final administrative or judicial decision or adjudication disapproves a previously approved request for purchase of personal services pursuant to Constitution 1963, Article 11, Section 5, and Civil Service Rule 4-6.**
- (f) The State may, with 30 days written notice to the Contractor, cancel the Contract in the event prices proposed for Contract modification/extension are unacceptable to the State. See Sections II-G, Price Proposal, I-P, Modification of Service, and I-R, Revisions, Consents, and Approvals.**

I-M ASSIGNMENT

The Contractor shall not have the right to assign this Contract or to assign or delegate any of its duties or obligations under this Contract to any other party (whether by operation of law or otherwise), without the prior written consent of the State. Any purported assignment in violation of this Section shall be null and void. Further, the Contractor may not assign the right to receive money due under the Contract without the prior written consent of the State Purchasing Director.

I-N DELEGATION

The Contractor shall not delegate any duties or obligations under this Contract to a subcontractor other than a subcontractor named in the bid unless the State Purchasing Director has given written consent to the delegation.

I-O NON-DISCRIMINATION CLAUSE

In the performance of any Contract or purchase order resulting herefrom, the bidder agrees not to discriminate against any employee or applicant for employment, with respect to their hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of race, color, religion, national origin, ancestry, age, sex, height, weight, marital status, physical or mental disability unrelated to the individual's ability to perform the duties of the particular job or position. The bidder further agrees that every subcontract entered into for the performance of any Contract or purchase order resulting herefrom will contain a provision requiring non-discrimination in employment, as herein specified, binding upon each subcontractor. This covenant is required pursuant to the Elliot Larsen Civil Rights Act, 1976 Public Act 453, as amended, MCL 37.2101, *et seq*, and the Persons with Disabilities Civil Rights Act, 1976 Public Act 220, as amended, MCL 37.1101, *et seq*, and any breach thereof may be regarded as a material breach of the Contract or purchase order.

I-P MODIFICATION OF SERVICE

The Director of Purchasing reserves the right to modify this service during the course of this Contract. Such modification may include adding or deleting tasks which this service shall encompass and/or any other modifications deemed necessary. Any changes in pricing proposed by the Contractor resulting from the requested changes are subject to acceptance by the state. Changes may be increases or decreases.

IN THE EVENT PRICES ARE NOT ACCEPTABLE TO THE STATE, THE CONTRACT SHALL BE SUBJECT TO COMPETITIVE BIDDING BASED UPON THE NEW SPECIFICATIONS.

I-Q ACCEPTANCE OF PROPOSAL CONTENT

The contents of this document and the vendor's proposal will become contractual obligations, if a Contract ensues. Failure of the successful bidder to accept these obligations may result in cancellation of the award.

I-R REVISIONS, CONSENTS, AND APPROVALS

This Contract may not be revised, modified, amended, extended, or augmented, except by a writing executed by the parties hereto, and any breach or default by a

party shall not be waived or released other than in writing signed by the other party.

I-S ENTIRE AGREEMENT AND ORDER OF PRECEDENCE

The following documents constitute the complete and exclusive agreement between the parties as it relates to this transaction: In the event of any conflict among the documents making up the Contract, the following order of precedence shall apply (in descending order of precedence):

- A. This Contract
- B. State's RFP and any Addenda thereto
- C. Contractor's response(s) to the State's RFP and Addenda

In the event of any conflicts between the specifications, terms, and conditions indicated by the State and those indicated by the Contractor, those of the State take precedence.

This Contract supercedes all proposals or other prior agreements, oral or written, and all other communications between the parties relating to this subject.

I-T NO WAIVER OF DEFAULT

The failure of a party to insist upon strict adherence to any term of a Contract shall not be considered a waiver or deprive the party of the right thereafter to insist upon strict adherence to that term, or any other term, of the Contract.

I-U SEVERABILITY

Each provision of this Contract shall be deemed to be severable from all other provisions of the Contract and, if one or more of the provisions of the Contract shall be declared invalid, the remaining provisions of the Contract shall remain in full force and effect.

I-V HEADINGS

Captions and headings used in this Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of this Contract.

I-W RELATIONSHIP OF THE PARTIES (INDEPENDENT CONTRACTOR)

The relationship between the State and the Contractor is that of client and independent Contractor. No agent, employee, or servant of the Contractor or any of its subcontractors shall be or shall be deemed to be an employee, agent, or servant of the State for any reason. The Contractor will be solely and entirely responsible for its acts and the acts of its agents, employees, servants and subcontractors during the performance of this Contract.

I-X NOTICES

Any notice given to a party under this Contract must be written and shall be deemed effective, if addressed to such party as addressed below upon (i) delivery,

if hand delivered; (ii) receipt of a confirmed transmission be telefacsimile if a copy of the notice is sent by another means specified in this Section; (iii) the third (3rd) Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

Either party may change its address where notices are to be sent giving written notice in accordance with this Section.

I-Y UNFAIR LABOR PRACTICES

Pursuant to 1980 Public Act 278, as amended, MCL 423.231, et seq, the State shall not award a Contract or subcontract to an employer whose name appears in the current register of employers failing to correct an unfair labor practice compiled pursuant to Section 2 of the Act. This information is compiled by the United States National Labor Relations Board.

A Contractor of the State, in relation to the Contract, shall not enter into a Contract with a subcontractor, manufacturer, or supplier whose name appears in this register. Pursuant to Section 4 of 1980 Public Act 278, MCL 423.324, the State may void any Contract if, subsequent to award of the Contract, the name of the Contractor as an employer, or the name of the subcontractor, manufacturer or supplier of the Contractor appears in the register.

I-Z SURVIVOR

Any provisions of the Contract that impose continuing obligations on the parties including, but not limited to the Contractor's indemnity and other obligations shall survive the expiration or cancellation of this Contract for any reason.

I-AA GOVERNING LAW

This Contract shall in all respects be governed by, and construed in accordance with, the laws of the State of Michigan. Any dispute arising herein shall be resolved in the State of Michigan.

I-BB YEAR 2000 SOFTWARE COMPLIANCE

The vendor warrants that all software which the vendor either sells or licenses to the State of Michigan and used by the State prior to, during or after the calendar year 2000, includes or shall include, at no added cost to the State, design and performance so the State shall not experience software abnormality and/or the generation of incorrect results from the software, due to date oriented processing, in the operation of the business of the State of Michigan.

The software design, to insure year 2000 compatibility, shall include, but is not limited to: data structures (databases, data files, etc.) that provide 4-digit date century; stored data that contain date century recognition, including, but not limited to, data stores in databases and hardware device internal system dates; calculations and program logic (e.g., sort algorithms, calendar generation, event recognition, and all processing actions that use or produce date values) that accommodates same century and multi-century formulas and date values;

interfaces that supply data to and receive data from other systems or organizations that prevent non-compliant dates and data from entering any State system; user interfaces (i.e., screens, reports, etc.) that accurately show 4 digit years; and assurance that the year 2000 shall be correctly treated as a leap year within all calculation and calendar logic.

I-CC CONTRACT DISTRIBUTION

The Office of Purchasing shall retain the sole right of Contract distribution to all State agencies and local units of government unless other arrangements are authorized by the Office of Purchasing.

SECTION II
WORK STATEMENT

II-A PURPOSE

The Master Health Care Plan (Plan) of the Michigan Public School Employees Retirement System (MPSERS) is presently administered on a self-insured basis by Blue Cross and Blue Shield of Michigan. The Plan is due to be rebid on a self-insured basis with the new contract to be effective January 1, 1999. MPSERS is seeking a qualified organization to provide claim processing and other administrative services for the Plan. The administrative services Contract will be for a five-year period

By January 1, 1999, there will be approximately 92,500 contracts for Master Health Care Plan coverage. This translates to approximately 120,500 covered individuals, including dependents (70% are Medicare age). The geographical distribution of current (February, 1998) Michigan Plan participants is shown by ZIP Code in Appendix B. The current (February, 1998) distribution of non-Michigan Plan participants is shown by state in Appendix C.

II-B ISSUING OFFICE

This Contract is issued by the State of Michigan, Department of Management and Budget (DMB), Office of Purchasing, hereafter known as the Office of Purchasing, for the State of Michigan, Department of Management and Budget, Michigan Public School Employees Retirement System, hereafter known as MPSERS. Where actions are a combination of those of the Office of Purchasing and MPSERS, the authority will be known as the State.

The Office of Purchasing is the sole point of contact in the State with regard to all procurement and contractual matters relating to the services described herein. The Office of Purchasing is the only office authorized to change, modify, amend, alter, clarify, etc., the prices, specifications, terms, and conditions of this Contract. The OFFICE OF PURCHASING will remain the SOLE POINT OF CONTACT throughout the procurement process, until such time as the Director of Purchasing shall direct otherwise in writing. See Paragraph II-C below. All communications concerning this procurement must be addressed to:

Chris Fuller
DMB, Office of Purchasing
2nd Floor, Mason Building
P.O. Box 30026
Lansing, MI 48909

II-C CONTRACT ADMINISTRATOR

Upon receipt at the Office of Purchasing of the properly executed Contract Agreement, it is anticipated that the Director of Purchasing will direct that the person named below be authorized to administer the Contract on a day-to-day basis during the term of the Contract. However, administration of this Contract implies no authority to change, modify, clarify, amend, or otherwise alter the prices, terms, conditions, and specifications of such Contract. That authority is

retained by the Office of Purchasing. The Contract Administrator for this project is:

Phillip Stoddard
Department of Management and Budget
Michigan Public School Employees Retirement System
P. O. Box 30673
Lansing, MI 48909-8103

II-D CONTRACT PAYMENT SCHEDULE

The specific payment schedule for this Contract(s) will be mutually agreed upon by the State and the Contractor(s). The schedule should show payment amount and should reflect actual work done by the payment dates, less any penalty cost charges accrued by those dates. As a general policy, statements shall be forwarded to the designated representative by the 15th day of the following month.

II-E PRICE PROPOSAL

The contract will be for a five-year period commencing on January 1, 1999 and ending on December 31, 2003. Firm prices are to be quoted for each of the five years. The price quoted for each year must be firm for the period from January 1 of that year through December 31 of that year. Prices are to be quoted as a flat monthly fee per enrolled retiree or surviving beneficiary (i.e., per family or "contract") for all services specified by this Contract.

All rates quoted in the Contract will be firm for the duration of the BPO. No price changes will be permitted; however, the rates quoted for each contract year may be higher or lower than the rates quoted for the preceding year. That is, bidders may quote different firm rates for each of the five years of the contract.

II-F BACKGROUND/PROBLEM STATEMENT

MPSERS is seeking a qualified organization to provide claim processing and administrative services for the Plan effective January 1, 1999.

Listed below are recent initiatives relating to the master health care plan.

1. Became self insured - 1992.
2. Instituted cost-sharing (increased deductibles, prescription co-pays) - 1992.
3. Established a contractual relationship with MEDSTAT for purposes of accessing utilization data for MPSERS' health plans - 1993
4. Board adopted strategic plan goals for the master health care plan -1993.
5. Implemented a Managed Prescription Drug plan which included a statewide card network, a national card network and a mail order pharmacy - 1994.
6. Implemented pursue and pay coordination of benefits (COB) for non-Medicare recipients - 1995.
7. Joined BCBSM's automated out-of-state claim processing system which allowed MPSERS to take advantage of BCBSM provider discounts - 1995.
8. Increased deductible - 1995.

9. Converted non-Medicare retirees and dependents to BCBSM's Blue Care Network Preferred Provider Organization (PPO) - 1996.
10. Implemented capitated durable medical equipment network and diagnostic laboratory network (subcontractors of BCBSM).
11. Implemented Cardiac Centers of Excellence - 1996.
12. Increased cost-sharing (annual deductible and name-brand prescription drug co-pay) - 1997.
13. Initiated 2-year HMO pilot project for retirees in Western and Southeastern Michigan to study effectiveness.

II-G OBJECTIVES

The following are the primary objectives of MPSERS in letting this Contract:

1. To have benefits administered in accordance with the terms of the Plan.
2. To have valid claims paid on an accurate and timely basis.
3. To obtain on a timely basis, accurate financial and utilization data with respect to the Plan's operations.
4. To have prompt, courteous service rendered to inquiring participants.
5. To assure that the Plan pays for only medically necessary and appropriate treatment.
6. To improve the quality of health care enjoyed by MPSERS members.
7. To achieve the lowest total plan cost consistent with objectives 1 through 6.

II-H REQUIREMENTS

This subsection contains the requirements the Contractor must meet in order to be awarded the contract. These requirements will be included in the contract.

1. Capability and Qualifications

MPSERS requires that the Contractor shall have a reputation in the industry for good character and judgment. The Contractor must be financially stable and have demonstrated a commitment to the medical plan administration business. The Contractor must have substantial experience with accounts of similar size and characteristics as MPSERS. The Contractor must maintain an experienced staff capable of providing efficient, convenient, high quality service to participants and MPSERS at all times and under all circumstances. The Contractor must be capable of implementing its administration on a timely basis.

a. Experience

The Contractor must have as current clients at least one medical

administration account having at least 40,000 covered employees and/or retirees and at least three additional medical administration accounts, each having at least 20,000 covered employees and retirees.

b. Capacity

The Contractor must, as of the date of its proposal, be actively administering group medical coverage for at least 500,000 employees and retirees.

c. Commitment

The Contractor or its antecedents must have, as of the date of its proposal, been actively engaged in the business of administering medical plans for at least seven years.

d. Service

The Contractor must maintain in Michigan at least one fully staffed office where the principal service representative for MPSERS will be located. In addition, key Contractor personnel who are not located in Michigan must be made available to MPSERS at this office (or at another convenient location in Michigan) on a reasonably frequent basis.

In addition, the Contractor shall maintain on-site at MPSERS offices in Lansing two experienced individuals; 1) an analyst, and 2) a secretarial support person, both of whom will provide day-to-day assistance to MPSERS in interfacing with the Contractor.

e. Timeliness

The Contractor must prepare the materials required by Section IV-C. 2. of this Contract.

2. Eligibility and Enrollment

MPSERS will provide a magnetic data tape containing all necessary information with respect to current enrollees prior to December 1, 1998. Thereafter, MPSERS will furnish a tape or other electronic medium containing additions, changes and deletions to the Contractor, at least once a month, according to a mutually agreeable procedure.

a. Information and Solicitation Materials:

The Contractor must:

- (i) Prepare and print at its own expense plan description booklets and claim kits for transitioning enrollees (92,500 each) and booklets and claim kits for enrollments during the first contract year (6,000 each). These materials must display

the MPSERS logo, be printed in large type for readability, and be comparable in size and quality to the brochure and claim kit presented in Appendix F. These materials must be available for distribution within three months of award of the Contract.

- (ii) Prepare and print at its own expense a benefits summary brochure for use in retirement application packets, pre-retirement meetings, correspondence, and retiree health insurance seminars. The brochure will be subject to revision annually. Approximately 35,000 brochures will be needed in the first plan year. The brochures must display the MPSERS logo, must be printed in large type for readability, and must be comparable in size and quality to the summary brochure presented in Appendix F. The brochures must be available for distribution within three months of award of the Contract.
- (iii) The retiree population is expected to increase at about five percent annually during the contract period. In the second through the fifth contract years the Contractor will be required to print a sufficient quantity of the materials described under (i), above, to meet the need for new enrollees. In addition, it will be required to print a sufficient quantity of the materials described in (ii), above, to replace materials used. These materials will be due at such times as shall be agreed upon by the parties and will include any necessary changes.
- (iv) Mail brochures and claim kits at its own expense to all enrollees as of the effective date of the commencement of its administration and to new participants as part of the enrollment process.
- (v) Prepare and bear the cost of all announcements, letters, notices, forms, postage, other supplies and services for the administration of the Plan.

All announcements, form letters, notices and brochures must be prior-approved by MPSERS. MPSERS will supply enrollment materials to all eligible retirees and process applications.

If substantial additional, or special, materials should be required in any Plan year, the cost for the additional materials will be a billable expense.

The Michigan printing law applies to all these materials. A copy of the law is enclosed in Appendix I.

b. Customer Service

The Contractor will be required to provide speakers at retiree meetings designated by MPSERS. Meeting requests may vary from year to year but will include up to five meetings out-of-state

(primarily Florida and Arizona). The out-of-state meetings will combine participation of the Contractor, MPSERS, the Vision Plan contractor, and the Dental Plan contractor. The Contractor will be responsible for all aspects of planning, organizing and conducting the meetings designated by MPSERS including notices, facilities and travel arrangements. The Contractor will share all expenses (including travel and room and board expenses of all participants) of the out-of-state meetings equally with the Vision Plan and Dental Plan contractors.

In addition to MPSERS-designated meetings, the Contractor will receive requests for speakers from retiree support organizations. Reasonable effort should be made to accommodate requests for in-state meetings. The Contractor shall provide MPSERS with activity reports two weeks following the close of each calendar quarter. The reports must contain the date, location and size of the meetings as well as the sponsoring organization and contact person.

The Contractor will be responsible for informing MPSERS' health care plan participants about current events and health and wellness topics by publishing and mailing a newsletter at least four times each contract year. The contractor will bear all expenses relating to laying out, printing and distributing the newsletter. The newsletter will typically be about eight pages and of the size and quality shown in Appendix G. The newsletter will be under the MPSERS logo and will have sections devoted to MPSERS' Master Health Care Plan, Dental Plan and Vision Plan, as well as items of general interest. The Dental and Vision Plan contractors will contribute articles to the newsletter. The newsletter will be subject to MPSERS' approval.

c. Exception Reports

The Contractor must produce a monthly exception report to identify discrepancies between monthly data submitted by MPSERS and data contained in its complete eligibility file. The Contractor must provide the name and telephone number of a qualified individual who will resolve discrepancies.

d. Identification Cards

Unless otherwise agreed between the Contractor and MPSERS, the Contractor must provide a MPSERS-specific identification card for each enrollee and adult dependent. The card must be made of durable plastic. If the card is not accepted by providers as acceptable evidence of coverage, it must contain a toll-free telephone number that providers can use to verify coverage during normal business hours. The card must also contain a toll-free number which can be used by participants to obtain information about the Plan.

e. Eligibility System

The Contractor must maintain an on-line eligibility system which is interfaced with its claim processing system. The system must be updated at least monthly and must include covered dependents by name. The Contractor will provide and maintain on MPSERS' premises a functional computer terminal for access by MPSERS to MPSERS' eligibility and claim data.

f. Enrollment Summaries

From time to time, the Contractor may be required to provide summary enrollment statistics by various categories and other enrollment data. The Contractor must agree to provide such reports on a timely basis without additional charges to the State.

3. Financial Arrangements and Reporting

The Contractor will establish an account with the State's bank, currently the National Bank of Detroit (NBD). Details will be worked out later, but it is anticipated that the Contractor will either use NBD as a conduit or actually write checks from the account. This can be done on a daily basis or less often if appropriate. The Contractor must establish an electronic mail link with MPSERS for purposes of communicating transfer requests.

a. Security

The Contractor shall have and maintain in place a system of financial controls and electronic data processing security to ensure the integrity of the MPSERS account and the data used to establish MPSERS' financial obligations.

b. Requests for Funds

Upon requesting a wire transfer for cleared drafts, the Contractor must transmit electronically to an official designated by the State a statement, signed by an officer of the Contractor, certifying that the request accurately states the financial obligation of MPSERS for cleared drafts for the period in question.

c. Documentation

Not later than twenty-five (25) days following the end of each month, the Contractor must provide in hard copy and on magnetic tape, in a format to be agreed upon between the parties, a claim detail report listing each claim processed during the preceding month. The Contractor must provide such reconciliation reports as may be required by MPSERS.

d. Annual Reports

Not more than ninety (90) days after the end of each contract year, the Contractor must provide, in a format to be agreed upon between the parties, a complete financial summary of the prior contract year.

The report must be available in both hard copy and on magnetic tape. In addition, the Contractor must provide such of its standard financial and statistical reports as may be requested by MPSERS.

e. Payment

MPSERS will make payments for administrative fees based on the number of enrolled retirees and surviving beneficiaries shown on MPSERS' monthly payroll who have coverage.

f. Government Forms

The Contractor must prepare Internal Revenue Service Form 1099 with respect to providers, and such other federal and state forms as may be required to be filed on behalf of MPSERS.

g. Special Reports

The Contractor must provide to MPSERS not less frequently than semiannually a report documenting its activities and results in administering the Coordination of Benefits (COB) provisions of the Plan. The report shall include at least the number of claims during the period for which other coverage (other than Medicare) was reported, the number of claims for which other coverage was not reported but was identified upon investigation and the dollar amount and percentage of total claim dollars saved as a result of COB administration.

h. Legal Activity

In the event the Plan or the State is sued or threatened with legal action as a result of the administration of the Plan, the Contractor must cooperate with counsel for the Plan or the State and must agree to act as expert witness if so requested.

i. Timing of Fee Payments

It is anticipated that MPSERS will make payment of the Contractor's administrative fees two business days after the end of the month to which the fees apply. The Contractor must agree to accept such fee in full payment of MPSERS' obligation without imposition of penalties or Late charges.

j. Provider Discounts

If the Contractor contracts directly with providers for services to be provided to Plan participants, then MPSERS shall be entitled to the full benefit of any such contractual arrangements. In no event shall MPSERS (or Plan participants) be charged more than the amount actually owing to a provider under the terms of such contract. A guarantee of savings by the Contractor in accordance with question 10 of Section VI of Appendix H shall not affect this requirement.

k. Audits

MPSERS reserves the right to audit the books and records of the Contractor at such reasonable times and frequencies as it shall determine to be appropriate to establish whether the Contractor is in compliance with the requirements of this Contract.

l. Conversion Policies

The Contractor shall make available to Plan participants who lose coverage under the Plan a conversion policy or policies it offers to other groups administered by the Contractor. The rates for such conversion policies shall be the same as those charged by the Contractor for conversion policies for other groups administered by the Contractor.

4. Claim Administration

a. Claim Adjudication and Payment

The Contractor must administer claims in conformity with the Master Health Care Plan. Provisions of the Plan are set forth in the Plan Description document in Appendix A. If any significant plan provisions are not reflected in the Plan Description document at the time this Contract is released, an addendum describing such provisions will be included in Appendix A. The Contractor must issue payment to both participants and providers on a timely and accurate basis.

b. Claims System

Claim processing by the Contractor must be highly system-aided. The system must provide for automated eligibility determination, duplicate claim identification, benefit calculation, data collection and explanation of benefit forms. It must limit the opportunity for processing error, provide security against unauthorized entry, track provider Licensing status and maintain appropriate history on-line.

c. Claim Processing and Customer Assistance

The Contractor must maintain an adequate claims processing staff of qualified employees to administer the Plan. The Contractor must also have a qualified customer service staff to answer both telephone and written inquiries from enrollees and providers and have an adequate number of toll-free telephone lines available at reasonable hours. MPSERS requires that the claim processing and customer service staffs be dedicated exclusively to the MPSERS account and managed separately from customer service staffs of other Contractor accounts.

MPSERS also requires that, within six months of the beginning of the contract, the Contractor will implement a program in which an expert in customer service will be available in a predetermined, constantly rotating pattern at 10 statewide locations in public school buildings to be determined later. Each location will be serviced weekly. The purpose of the program will be to provide Plan participants with opportunities for face-to-face assistance on matters of coverage and claims issues. This requirement will be considered to be met if, in MPSERS' judgment, the Contractor has a comparable number of statewide walk-in offices which provide face-to-face assistance with coverage and claims issues.

The Contractor must maintain a “nurse hotline” which allows members to talk on a toll-free line to registered nurses about their health concerns. The program should include at least the following:

- a) Phone response to members' health concerns using established clinical patterns designed by physicians**
- b) Health counseling on any medical topic, including outbound follow up calls by nurse counselor**
- c) Information on Michigan providers and community resources**
- d) Hard copy health education library for home mailing; audio library for on line listening**
- e) Medical history collected at call time and stored for future reference**
- f) A plan for putting selected medical and prescription drug claim data on line by 2000.**

This service is subject to annual review by MPSERS.

d. Payments In Accordance With Plan

The Contractor must not charge against MPSERS' account for claim payments not authorized under the Plan, except that the Contractor may charge such payments for an individual who was formerly covered under the plan if such payments were made prior to notification of the individual's ineligibility. If such unauthorized payments are made and can be identified, the Contractor must recover such payments from participants or reimburse MPSERS for such payments from its own funds. MPSERS may, in the interest of the Plan and the members, agree to accept a settlement of such obligations.

e. Claim History

The Contractor must present a procedure acceptable to MPSERS for adjudicating claims so as to reflect the status of claimants' deductible carry-overs, out-of-pocket maximums and lifetime

maximums under the Plan as of the commencement of its administration. If the Contractor is not BCBSM, the Contractor must be prepared to accept a claim history tape from BCBSM and work closely with BCBSM to resolve any difficulties that may arise in integrating claim history into its system.

The Contractor must also maintain its data in such a manner that it can provide to MPSERS or any subsequent administrator a current claim history tape within 30 days of the date of request. Moreover, the Contractor must provide on magnetic medium or hard copy a monthly claim history update until all runout claims are closed out.

5. Utilization Data Reporting

MPSERS intends to establish and maintain a database of utilization statistics to better manage the Plan. To that end, it has entered into a contract with a vendor to organize and create databases for both the medical plan and the prescription drug plan.

a. Data Elements

The Contractor must capture and store with respect to each claim all of the data elements specified in Appendix D for the medical plan and the prescription drug plan.

b. Data Reports

The Contractor must provide to the vendor selected by MPSERS on a semi-annual basis a magnetic tape containing the data described in 5.a. above, not later than thirty (30) days after each semi-annual period. The contractor must retain in a safe place at least one copy of each tape for the duration of the Contract. Upon termination or expiration of the Contract, the Contractor must deliver all such retained tapes to MPSERS within five working days of the request by MPSERS.

c. Examination of Records

MPSERS reserves the right to examine the Contractor's databases to determine whether the Contractor is in compliance with the data elements requirement of the Contract.

6. Performance Standards

MPSERS intends that services rendered by the Contractor shall be accurate and timely. Therefore, it will require the establishment of performance measurements and standards. It will also require that the Contractor be at financial risk for its performance in the areas of administrative accuracy, financial accuracy and claim processing time.

Not less than annually, the Contractor must permit a claim audit and performance evaluation by an independent vendor to be selected by the State.

The Contractor must agree to the following performance provisions. Application of provisions a through c will be determined by a performance appraisal conducted by an outside vendor retained by the State. The appraisal results will be based on point estimates produced through audit of a stratified random sample of claims processed during each contract year.

a. **Financial Error Rate**

This is defined as the number of claims containing errors of a financial nature (i.e., incorrect benefit amount) divided by the number of claims in the sample. If the financial error rate exceeds three percent (3.0%), then the Contractor's administrative fee for the Plan year audited will be ninety-eight percent (98.0%) of its quoted fee, less an additional one percent (1.0%) for each full percentage point by which the error rate exceeds three percent (3.0%).

b. **Non-Financial Error Rate**

This is defined as the number of claims containing errors of a non-financial nature (i.e., incorrect CPT code) divided by the number of claims in the sample. If the error rate exceeds six percent (6.0%), then the Contractor's administrative fee for the year audited will be ninety-eight and one-half percent (98.5%) of the fee quoted, less an additional one and one half percent (1.5%) for each full percentage point by which the error rate exceeds six percent (6.0%).

c. **Turnaround Time**

Turnaround time is defined as the number of days between the date a claim is received in the Contractor's claim office and the date the Explanation of Benefits (E.O.B.) form is mailed. If the average turnaround time for all claims is not less than ten (10) days, then the Contractor's administrative fee for the year audited shall be ninety-eight and one-half percent (98.5%) of the fee quoted, less an additional one and one-half percent (1.5%) for each additional three (3) days by which the average turnaround time exceeds ten (10) days. The Contractor must maintain its records in a manner that will allow turnaround time to be calculated by a fully-automated computer audit.

In the event that the Contractor's administrative fee for the Plan year is to be adjusted under more than one of the preceding paragraphs, then the adjustment will be computed separately under each paragraph and the total adjustment for all paragraphs will be applied to the quoted fee.

7. **Special Provider Arrangements**

MPSERS intends that the Contractor shall provide for the care of plan participants on a basis which offers favorable pricing for the State and the participants. To this end, the Contractor shall maintain a network of providers whose maximum fees and other charges shall be determined by contract, either blanket or on a case-by-case basis, between the provider and the Contractor. Periodically, the Contractor shall provide a report to MPSERS that contains a comparison of the contractual fees and charges allowed to network providers for representative services and supplies to those generally charged in the fee-for-service/supply market. The timing and format of the report shall be mutually agreed upon between MPSERS and the Contractor. Contractors should note that compliance with this reporting requirement may necessitate periodic purchase of access to a health care claims database maintained by an outside source such as the Health Insurance Association of America (HIAA).

MPSERS requires that the Contractor maintain certain contractual arrangements with providers, as follows:

a. Preferred Provider Organization (PPO)

Under MPSERS' current contract with Blue Cross and Blue Shield of Michigan (BCBSM), BCBSM maintains a statewide PPO arrangement. Providers agree to a fee schedule which incorporates a significant discount from UCR allowances. Non-Medicare-eligible members who receive services in Michigan must use network providers or are subject to a penalty.

The Contractor must provide a similar arrangement. The Contractor's arrangement must cover the entire State of Michigan and provide adequate access to all members in Michigan. Adequate access is defined as at least two primary care providers within 25 miles. The contractor must provide evidence that it meets this requirement including both graphic and tabular GeoAccess exhibits or their equivalent.

b. Retail Prescription Drug Plan

The Plan includes a stand-alone flat dollar copayment prescription drug plan which operates on a card plan basis both in Michigan and out-of-state. Indemnity coverage is available subject to reduced reimbursement. All of the requirements of this Contract apply to the drug plan. The Contractor, or its sub-contractor, must maintain a card plan-type program in Michigan. The plan must be participated in by at least seventy-five percent of the pharmacies in Michigan and must allow MPSERS' members to purchase drugs at participating pharmacies with cash outlay limited to the copayment. The Contractor's arrangement in Michigan must provide for pricing of prescriptions not less favorable to MPSERS than:

For brand name drugs: Average Wholesale Price less 16 percent with a \$2.50 dispensing fee (the

dispensing fee may vary by up to \$0.25 on a geographic basis in order to assure reasonable access for MPSERS members to pharmacy providers).

For generic drugs: Average Wholesale Price less 25 percent with a \$2.50 dispensing fee, or, if the drug is on the maximum allowable cost (MAC) list maintained by the Contractor, the MAC price plus a \$2.50 dispensing fee.

In addition, the Contractor must make available, through itself or through associated or affiliated organizations (including contracted vendors), provider networks outside of Michigan which allow MPSERS' members to purchase drugs at participating pharmacies with cash outlay limited to the copayment. The pricing must be not less favorable to MPSERS than:

For brand name drugs: Average Wholesale Price less 13 percent with a \$2.50 dispensing fee

For generic drugs: Average Wholesale Price less 13 percent with a \$2.50 dispensing fee, or, if the drug is on the maximum allowable cost (MAC) list maintained by the Contractor, the MAC price plus a \$2.50 dispensing fee.

c. **Mail Service Pharmacy**

The Contractor, or its sub-contractor, must provide a mail service pharmacy program available to all US resident members which provides for members to fill maintenance medication prescriptions of up to a 90 days supply. The mail service program must allow members to pay copayments through checks or major credit cards. It must include facilities for a 24-hour toll-free "help line." Pricing for the program must be at least as favorable as the following:

For brand name drugs: Average Wholesale Price less 18.5 percent with no dispensing fee

For generic drugs: Average Wholesale Price less 40 percent with no dispensing fee, or, if the drug is on the maximum allowable cost (MAC) list maintained by the Contractor, the MAC price without a dispensing fee.

d. **Drug Utilization Review (DUR)**

The card program(s), both inside and outside of Michigan, and the mail service program must provide for a single, integrated, on-line DUR program that automatically checks each prescription for the following:

- i. drug-to-drug interaction
- ii. drug-to-allergy interaction
- iii. drug-to-medical condition interaction
- iv. duplicate prescription
- v. exceeding maximum dosage
- vi. refill too soon
- vii. appropriate drug dosage
- viii. exceptional activity
- ix. therapeutic duplications

If you do not yet have the capability for drug-to-allergy and/or drug-to-medical-condition checking, you must provide a timetable and work plan for development of such capabilities.

1. Cardiac Centers of Excellence (CCOE)

The Contractor must maintain a CCOE program, either for all of its customers in Michigan or MPERS-specific, for key cardiac procedures performed in Michigan. These include but need not be limited to;

- a) Coronary artery bypass graft
- b) Percutaneous transluminal coronary angioplasty
- c) Cardiac valve repair/replacement
- d) Cardiac and coronary artery replacement.

The CCOE program must identify those Michigan hospitals with the best qualified staffs, the most appropriate facilities and protocols and the highest volume of cardiac procedures. Hospitals must be fully accredited by the Joint Commission on Health Care Organizations or the American Osteopathic Association and must demonstrate through corrective action plans that any identified deficiencies relating to medical staff or cardiac care issues have been adequately addressed.

At least the following key items must be reviewed in developing the CCOE:

- i. Malpractice history of hospitals to ensure that there are no problematic patterns in the cardiac area
- ii. History of the hospital's cardiac program to be certain that the full range of cardiac services will be available to patients
- iii. Hospitals' years of operation and average volume of procedures

- iv. **Qualifications of the cardiac care professional staff**
- v. **Hospitals' quality assurance programs to ensure that appropriate standards are in place for high quality care delivery**
- vi. **Hospitals' written plans for handling emergencies and the training provided to staff for implementation of the plans.**
- vii. **Hospitals' equipment, which must be maintained according to applicable standards on continuous basis**
- viii. **Mortality history of hospitals.**

Benchmarks must be established to assure that appropriate volumes of cardiac services have been performed by each hospital within specified time periods.

8. Senior Account Manager and Support Staff

The Contractor shall provide an experienced senior account manager (SAM). The successful implementation of this contract depends significantly upon the capabilities of the SAM, his/her reporting relationship within the organizational hierarchy of the Contractor, direct staff support and indirect support throughout the Contractor's organization. MPSERS has initiated an ongoing strategic planning process with established goals and objectives for both cost and quality of health care delivery. Several initiatives have been successfully implemented with the existing Contractor, and many more are currently in the design/implementation stage. Most, if not all, of the initiatives require a coordination of changes both with the Contractor's policies, procedures and process and with MPSERS. To that end, it is critical that the SAM or, alternatively, a designated executive-level person working with the SAM, have effectual and responsible reporting relationships with senior executive level management. Qualifications will be measured by education and experience, with particular reference to reporting relationship, authority and ability to meaningfully coordinate the strategic planning needs of both the Contractor and MPSERS.

The SAM shall have the ability within the Contractor organization to obtain the use of such resources, both direct and indirect, as are necessary to meet MPSERS' needs.

The SAM shall have at least one qualified back-up or assistant who shall be involved in this account management and who is capable of performing the responsibilities of the SAM in the event that the SAM is unavailable.

The contractor must submit an organizational chart showing all staff directly being proposed to service the MPSERS account for the first year of the contract and for each of the following years of the contract if changes are anticipated. Also, the contractor must submit an organizational chart showing reporting relationships of the account management staff within

the context of the Contractor's full organization with areas furnishing indirect support highlighted.

The SAM shall not be changed by the Contractor without the approval of MPSERS. In the event that the SAM shall become permanently unavailable, MPSERS will be fully involved in selecting a new SAM and shall have the right of refusal in the SAM selection process.

II-I PROJECT CONTROL AND REPORTS

1. Project Control

- a. The Contractor will carry out this project under the direction and control of MPSERS.
- b. Although there will be continuous liaison with the Contractor team, the client agency's project director will meet monthly at a minimum, with the Contractor's project manager for the purpose of reviewing progress and providing necessary guidance to the Contractor in solving problems which arise.
- c. The Contractor will submit brief written monthly (or more frequently, if necessary) summaries of progress which outline the work accomplished during the reporting period; work to be accomplished during the subsequent reporting period; problems, real or anticipated, which should be brought to the attention of the client agency's project director; and notification of any significant deviation from previously agreed-upon work plans.
- d. Within ten (10) working days of the award of the BPO, the Contractor will submit to MPSERS' project director for final approval an implementation work plan. This final implementation plan must be in agreement with Section IV-C subsection 2 as proposed by the bidder and accepted by the State for BPO, and must include the following:
 - (1) The Contractor's project organizational structure.
 - (2) The Contractor's staffing table with names and title of personnel assigned to the project. This must be in agreement with staffing of accepted proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State.
 - (3) The project breakdown showing sub-projects, activities and tasks, and resources required and allocated to each.
 - (4) The time-phased plan in the form of a graphic display, showing each event, task, and decision point in your work plan.

2. Reports

The Contractor shall prepare a reconciliation report on a quarterly basis to assist in an on-going reconciliation of claim payments, fees and other financial transactions. The format and timing of the report shall be determined by mutual agreement between MPSERS and the Contractor.

**SECTION III
CONTRACTOR INFORMATION**

III-A BUSINESS ORGANIZATION

PRIMARY CONTRACTOR:

**Blue Cross and Blue Shield of Michigan
600 Lafayette East
Detroit, MI 48226**

SUB-CONTRACTOR:

**Merck-Medco Managed Care, L.L.C.
100 Summit Avenue
Montvale, NJ 07645-1753
Rich Mountjoy (201) 782-3060**

**Other Carrier Liability
40680 Garfield #2
Clinton Township, 48038
Jerry Risher (810) 226-1300**

**Wright and Filippis
2845 Crooks Rd.
Rochester Hills, MI 48309
Debbie Pinsaura (248) 853-1845**

**Quest Diagnostics
4444 Giddings Rd.
Auburn Hills, MI 48326
Dan Wolfman (248) 373-9120 Ext. 1309**

**Health Ink Communications
One Executive Drive
Moorestown, NJ 08057
Craig Ammerman, President 1-(800) 524-1176**

III-B AUTHORIZED CONTRACTOR EXPEDITER:

**J. Paul Austin
(313) 225-0733**

APPENDIX A

CONTRACTOR'S TECHNICAL PROPOSAL
(EXCERPTS)

APPENDIX B
CONTRACTOR'S PRICING