



June 23, 2023

Andrew Frend, President
Benefitfocus.com, Inc.
240 Marquette Ave
Suite 900
Minneapolis, MN 55401

RE: Delivery of The Core Medicare Enhancements

Dear Mr. Frend:

On September 23, 2020, the North Carolina State Health Plan for Teachers and State Employees ("Plan") and Benefitfocus.com, Inc. ("Benefitfocus") entered into a contract for eligibility and enrollment services ("Contract"). This Contract includes critical services required to manage the Plan's eligibility and enrollment rules which is why the Plan has invested millions of dollars in enhancements to Benefitfocus' systems. Unfortunately, Benefitfocus has yet to deliver on one of the more recent projects.

In March of 2022, Dee Jones, the Plan's Executive Administrator at that time, and Caroline Smart, the Plan's Senior Director of Plan Integration, spoke with Benefitfocus' Chief Executive Officer, Matt Levin, to discuss Benefitfocus' core platform deficiencies related to Medicare eligibility and enrollment. The core Medicare functionality gaps not only created ongoing production problems, but also required the expenditure of extra staff resources by the Plan directly and through the Plan's vendors, Benefitfocus and Blue Cross Blue Shield of North Carolina ("BCNC"). This includes, but is not limited to, the implementation and maintenance of time-consuming manual workarounds at BCNC and Benefitfocus to ensure the Plan, BCNC, and Benefitfocus maintain accurate Medicare information.

To resolve this issue, the Plan agreed to contract with Benefitfocus to implement the enhancements necessary to accurately house, calculate, and transmit Medicare data ("Core Medicare Enhancements"). This agreement was formalized in the "Additional Medicare Information" Administrative Decision Memo that was executed on May 12, 2022. The Core Medicare Enhancements are critical to managing Plan members' Medicare status both accurately and seamlessly. It is also a specific requirement outlined in Section C.3.b. of the Contract.

On June 28, 2022, Benefitfocus presented the Plan with an estimate for the Core Medicare Enhancements of \$619,284.00. On July 18, 2022, Benefitfocus provided an updated, reduced estimate of \$553,764.00. In early August 2022, the Plan requested that Benefitfocus help shoulder the burden of the cost of the Core Medicare Enhancements as the upgrades were not specific to the Plan, but core to

Benefitfocus' overall Medicare eligibility and enrollment management line of business. On August 11, 2022, Benefitfocus agreed to share the cost, and it was agreed that the Plan's share would be \$278,764.00. This was memorialized in Amendment 19 to the Contract which was executed on August 17, 2022.

The Implementation Plan for the project was executed on November 7, 2022. Per the Implementation Plan, the Core Medicare Enhancements would be fully implemented by the original Go-Live date of February 11, 2023. Benefitfocus missed this initial target. The parties then established a subsequent go-live date of May 1, 2023. Unfortunately, Benefitfocus missed the subsequent Go-Live date as well and has yet to deliver the Core Medicare Enhancements. As of the date of this letter, no concrete delivery date has been established.

Per Section D.2. of the Contract, the Plan is to pay Benefitfocus on a Time & Materials basis for future projects. Once a project amendment is signed, Benefitfocus may bill the Plan for work done the previous month. In Section E.5., the Contract also has performance guarantees related to project implementation: *"Approved projects are fully implemented within One State Business Day of the Go-Live date in the mutually agreed upon Implementation Plan."* The fees at risk for failure to implement the feature by the Go-Live date are "\$500/day late not to exceed 10% of the cost of the project."

To date, the Plan has paid Benefitfocus \$278,706.55 for the Core Medicare Enhancements, which Benefitfocus has yet to successfully implement. The Plan has also assessed Benefitfocus, and Benefitfocus has paid, an initial performance penalty of \$11,000.00 based on Benefitfocus' failure to meet the original Go-Live date. A second performance penalty based on Benefitfocus' failure to meet the May 1, 2023 Go-Live date will be assessed with the next round of performance guarantee reviews. With this second penalty, Benefitfocus will likely hit the maximum performance guarantee threshold of 10% of fees, or \$27,870.65.

At this point, the Plan has met its obligations under the Contract by timely paying Benefitfocus after receiving each invoice. Unfortunately, Benefitfocus has not delivered any portion of the required functionality related to the Core Medicare Enhancements. Because of Benefitfocus' failure, the Plan continues to expend extra resources to maintain accurate Medicare information. Further, each week the Plan requests confirmation of a firm delivery schedule, but to date, none has been provided. The Plan continues to be disappointed and concerned about Benefitfocus' inability to deliver on core functionality that would be required of any eligibility and enrollment services vendor to manage a client with Medicare primary members.

In addition to the Core Medicare Enhancements, the Plan and Benefitfocus currently have the following projects in process: (1) new electronic data interfaces (EDI) supporting the transition of group premium billing from the Third-Party Administration (TPA) contract to the COBRA Administration and Billing Services Contract (iTEDIUM Project); and (2) work related to implementation of the new TPA Contract with Aetna. Benefitfocus has thus far failed to meet its contractual obligations for the Core Medicare Enhancements and the iTEDIUM Project.

The Plan demands that Benefitfocus ensure that:

- (1) The Core Medicare Enhancements are delivered no later than February 28, 2024.
- (2) The iTEDIUM Project is delivered accurately and timely.
- (3) It properly takes all additional measures required under the Contract to support the Plan's implementation of the Aetna TPA Contract.

The Core Medicare Enhancements are necessary for the Plan's current operations. Benefitfocus' failure to deliver the Core Medicare Enhancements continues to harm the Plan's daily operations. Moreover, the Core Medicare Enhancements are also critical to implementation of the TPA Contract with Aetna. Continued failure to deliver the Core Medicare Enhancements threatens to undermine that implementation. Any additional failures to deliver on other items required under the Contract could also negatively impact implementation of the TPA Contract with Aetna. In either situation, the Plan would be irreparably damaged.

The Plan appreciates Benefitfocus' immediate attention to these matters.

Sincerely,

A handwritten signature in black ink, reading "Samuel W. Watts". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Samuel W. Watts
Executive Administrator

cc: Caroline W. Smart