

# Ask Questions. Be Informed.

## Understanding the MFLC-3 Federal Contract – The Basics

As a dedicated Counselor, you already know how the MFLC Program helps service members and their families. But do you know how the business side of the contract works? There are many ways that the contract between Magellan and the US Government affect your employment.

Each of the three contractors performing work on MFLC-3 submitted a separate bid in response to the US Government's request for proposal (RFP). Each company's proposal included "fully burdened rates", unique to that company that were incorporated into each company's contract with the US Government. This document explains the provisions of Magellan Health's contract.

### Federal Contract Overview

- The 10-year competitively bid, multiple-award contract spells out the services Magellan is required to provide to service members and their families. Failure to fully and consistently meet contractual terms and conditions can negatively impact Magellan's performance rating with the US Government customer.
- The contract includes requirements for program staffing, work schedule and Counselor utilization.
- Magellan's contract includes "fully-burdened rates" for: ALL program costs like wages, the possibility of annual merit increases, benefits, and operational and corporate expenses, including profit.
- The amount that Magellan is permitted to bill the US Government for MFLC labor (at a fully burdened rate) is fixed for each year in the 10-year federal contract. The rate was accepted by the government and can only be decreased over the term of the contract.
- All Program contractors must abide by and adhere to strict terms and conditions of the contract or risk receiving low ratings from the Government and not being awarded Task Orders.

### General Conditions and Restrictions Affecting Counselors

- The US Government defines and controls service delivery, quality and other standards defined in the Performance Work Statement. Changes to the nature of the work are not negotiable.
- Most working conditions (i.e. a highly-flexible 40-hour work week; licensure and security clearance requirements) are required under the contract, while others (i.e., supervisor staffing ratios; PMO and corporate services) allow contractors some flexibility and discretion.
- Contractors cannot profit on "pass throughs" such as travel costs, per diems, and Other Direct Costs (ODCs).

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- CONUS and OCONUS rates are fixed and do not allow for differences between high- and low-cost geographic areas. However, Magellan has the discretion to set salaries that account for differences in cost of labor, where appropriate.
- The contract requires the prime contractors (Magellan, MHN, SRI) to subcontract out 20% of the contract value to small businesses set-asides such as women/veteran-owned/minority/disabled and/or disadvantaged businesses.
- The US Government expects that 100% of contract assignments are filled 100% of the time with continuous staff coverage. The customer expects that breaks will be taken in between CTA's and not during assignments. This contractual requirement makes it extremely difficult for ANY MFLC contractor to provide PTO or other time off during a Counselor's CTA period without the risk of losing assignments because services are not being provided.
- CONUS MFLCs must be licensed/certified/properly credentialed in the state(s) in which they are working.
- US Government reimbursement for CONUS travel is extremely limited in the MFLC-3 contract.
- Generally, the US Government requires that MFLCs "rotate" to new assignments at the end of their CTA so they are not perceived as part of the military installation and command hierarchy.
- The US Government has the sole discretion to determine the acceptance or rejection of Counselors and/or eliminate any assignments.
- MFLCs are required to provide a highly-flexible 40-hour work week and demonstrate their schedule accountability (log-in/log-out).

## Performance Work Statement, Task Orders and Options

- The Performance Work Statement (PWS) dictates Counselor participation requirements and the type of work/counseling performed for each Task Order.
- A Task Order defines the footprint of assignments for the prime contractors and can be changed at the US Government's discretion.
- Counselor assignments associated with a Task Order must be filled within a reasonable time period or risk having the position discontinued or transferred to another contractor. (i.e., it is possible for an entire base to lose all MFLC Counselor assignments).
- Task Orders may include assignment extensions or "Options" that the US Government may or may not 1) exercise with the same contractor or 2) give to another contractor, at its discretion.

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## How Magellan Is Paid

- It is important to remember that Magellan is paid only for Counselor hours worked and allowable pass through expenses.
- Magellan can invoice the US Government only for hours worked and recorded in the time reporting system; consistent and accurate billing is required for maintaining compliance with DCAA and other regulatory agencies.
- The US Government doesn't pay Magellan if Counselors aren't working, no matter the reason -- PTO, holidays, vacation, sick days, FMLA, jury duty, US Government closures -- even acts of God.
- Magellan funds from its contract profits all Counselor time-off as the US Government does not reimburse for this time.
- Outside entities do not determine Counselor pay or merit increases. MFLC contractors determine Counselor pay, merit increases, and benefits based on the fully burdened rates submitted to the US Government customer.

## Wage and Earnings

### Why doesn't Magellan pay Counselors more?

Magellan bases MFLC salaries on a market analysis of counselors performing similar work under similar conditions.

Market surveys indicate that Magellan pays its counselors within the competitive range.

In addition, Magellan adjusts pay for regional differentials, service under the MFLC-2 contract, and premiums for working in certain hard to fill locations.

### Why don't MFLCs get a bigger share of the revenue?

In actuality, MFLCs receive the vast majority of the revenue Magellan receives from the Program. However, salaries and benefits are not the only contract expense. The MFLC contract is supported by a Program Management Office, an operational management team and corporate functions, such as Finance, HR, Security, IT, etc.

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As a publicly traded company, Magellan has obligations to investors and stockholders. Magellan must financially support the many company resources and departments that work behind the scenes to support the important work Counselors do. Lastly, some revenue is a simple pass through (travel, per diems, ODCs) and is not part of our funding stream.

## Magellan is a multi-billion dollar publicly-traded company. Why doesn't it value MFLC Counselors more by giving us more of a share of their profits?

While it is true that Magellan is a multi-billion company, we are also for-profit, publicly-traded on NASDAQ and have several different companies under our corporate umbrella. Each of our businesses must win new business, earn revenue and sustain its operations by managing expenses. The fact that Magellan is a large company that earns a lot of revenue doesn't mean that additional money can or should be allocated to MFLC program. As is common with most US Government contracts, the MFLC profit margins are low.

## I know other contractors pay their Counselors more than Magellan pays. Why can't Magellan pay the same?

Other contractors submitted competitive bids to the US Government to participate in the MFLC Program just as Magellan did. It would be an anti-trust violation for Magellan to collaborate or fix salaries with our competitors. While other companies may offer higher pay, either temporarily or permanently, we feel our total compensation package is competitive, especially when you consider our long-standing benefits like our 401k -- including the company match, the employee stock purchase plan, and our other benefits. We are hopeful that Counselors will consider this and continue to choose Magellan as their employer.

## I've been told that Magellan's annual revenue is over \$600 million on this contract. How can Magellan be so greedy?

Magellan's MFLC annual revenue is not anywhere near that amount on the contract. If someone is telling you that is the case, you should ask them to provide details and the source of that information. It is false.