

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary-2006 Proposed Budget: Employee Health Care Benefits – SPA

Department of Employee Relations (DER)

1. Between 2000 and 2004, the average annual increase for employee and retiree health benefits for the City of Milwaukee was 10.4% (Page 3).
2. A 9.1% increase (overall) for employee and retiree health benefits is projected for 2005 to 2006 (Page 3).
3. In 2006, a new third party will assume administration of the City's Basic Plan: Blue Cross Blue Shield of Wisconsin and Claim Management Services, Inc. (CMS) (Page 4).
4. The 2006 proposed budget includes the approved new rates for one HMO health insurer offering two distinct health plans that are expected to provide service to city employees and retirees in the year 2006 (Pages 4-6).
5. Management employees and two bargaining groups will also have the opportunity to choose an alternative to the broad Basic Plan, providing two alternative tiers of care systems to the Basic Plan (Page 4).
6. The 2006 proposed budget increases the Basic Plan Claims account by \$5.1 million from the 2005 budget (Page 5).
7. The 2006 proposed budget increases the HMO funding account by \$5.1 million from the 2005 budget. The increase is based on actual utilization and experience of all active and retired employees (Pages 5-6).
8. The city's contribution for active employees selecting an HMO remains at 100% of the lowest HMO for each category of coverage. For 2006, the city's monthly contribution will be \$385.75 for single coverage and \$1,053.05 for family coverage for active management employees and \$389.30 for single coverage and \$1,063.05 for family coverage for non-management employees. The lower cost for active management employees reflects the lower total cost for the city for management employees based upon the 20% co-insurance for prescription drugs that is in place for active management employees (Pages 5-6).
9. The 2006 proposed budget decreases by 4% the dental insurance sub-account to \$2.4 million from the 2005 funding. The City's contribution for dental insurance has not changed since 1992. \$13.00 is contributed monthly for single coverage and \$37.50 for family coverage (Page 7).

10. The 2006 proposed budget for Administrative Expenses increases from 2005 with \$1,675,000 in total funding. For 2006, the fees for the cost containment sub-account are rolled into the administrative sub-account (Page 7).
11. DER will continue to engage in various reviews and initiatives in 2006 to study the local health care market, health care costs as they affect city government and its employees and will make continuing recommendations for changes to the city administration and Common Council (Pages 7-9).

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

2006 Proposed Budget Summary: Employee Health Care Benefits – SPA

Department of Employee Relations (DER)

| EHCB Sub-Account | 2004 Actual | 2005 Budget | Change | 2006 Proposed | Change |
|-------------------------|----------------------|----------------------|---------------|-----------------------|---------------|
| Claims | \$ 27,083,894 | \$ 30,800,000 | 13% | \$ 34,200,000 | 11% |
| HMO | 54,090,293 | 60,000,000 | 10% | 65,125,000 | 8.5% |
| Dental Insurance | 2,219,943 | 2,400,000 | 8% | 2,300,000 | -4% |
| Admin. Expenses | 1,264,221 | 1,226,100 | -3% | 1,675,100 | 36% |
| Cost Containment | 312,474 | 300,000 | -3% | 0 * | - |
| TOTAL | \$ 84,970,825 | \$ 94,726,100 | 11% | \$ 103,300,100 | 9.1% |

* In 2006, the Cost Containment expenses are combined with the Administrative Expenses into one sub-account.

The Employees' Health Care Benefits – Special Purpose Account consists of the five sub-accounts listed in the chart above. It covers the costs associated with the city's self-funded indemnity plan (Basic Plan), health maintenance organizations (HMOs) and dental insurance. This account also includes funding for administrative expenses and various cost containment measures. Funding can be reallocated among the sub-accounts as needed.

Background

1. Between 2000 and 2004, the average annual increase in expenditures for employee health benefits was 10.4%.

| Year | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Actual Expenditure | \$56,697,113 | \$62,659,288 | \$74,917,275 | \$76,931,907 | \$84,970,825 |
| % Change | 9.2% | 10.5% | 19.5% | 2.6% | 10.4% |

This average 10.4% annual increase in expenditure contrasts with 19.5% between 2001 and 2002 and the 9.1% projected increase between 2005 and 2006.

2. The city's monthly contribution for HMOs is capped at 100% of the lowest priced HMO premium. For 2006, this amount is \$385.75 for single coverage and \$1,053.55 for family coverage for general city, fire and police management employees and \$389.30 for single coverage and \$1,063.05 for family coverage for other groups. The low-cost HMO serves as the baseline for determining the employee share of other health insurance options provided by the city, in particular, the broad-based HMO and, for management employees, the share of the monthly Basic Plan premium.

3. The Basic Health Plan contribution for city employees in 2006 ranges from \$60.00 for single coverage and \$120.00 for family coverage to \$258.60 for single coverage and \$398.62 for family coverage. The actual employee contributions to the Basic Plan vary with the respective collective bargaining unit and are subject to labor contracts. Most city bargaining groups are at \$75/\$150 per month.
4. Common Council File # 020469 authorized the Department of Employee Relations to establish a rate structure for all management employees that closed the gap between the low-cost HMO and the City of Milwaukee's Basic Health Plan by 50% for 2003. In 2004, active city management employees enrolling in the Basic Plan began to contribute 100% of the difference between the city's cost of the Basic Plan and the low-cost HMO.

2006 Major Issues and Proposed Changes

In 2006, a new third party administrator will assume administration of the City's Basic Plan. Blue Cross Blue Shield of Wisconsin and Claim Management Services, Inc. (CMS), a subsidiary of Blue Cross Blue Shield, will provide the administrative services associated with the City of Milwaukee's Basic Health Plan for active and retired employees for 2006, 2007 and 2008.

1. The 2006 proposed budget reflects an increase in the employee's contribution for the Basic Health Plan for active city management employees.

Management currently comprises 4.5% - 70 members - out of approximately 1,552 total active employees enrolled in the Basic Plan. These 70 members represent approximately 11% of all city management employees.

The monthly Basic Plan premium share for management employees effective January 2006 are as follows:

- Increase by \$87.03 from \$171.57 to \$258.60 for single coverage (50.7%)
- Increase by \$109.07 from \$289.55 to \$398.62 for family coverage (37.6%)

For 2006, for general management employees and two bargaining groups, the Basic Plan will offer two "Tier" options in addition to the broad network Basic Plan that will reduce the monthly employee share to \$62.55 or \$118.40 for single coverage and \$137.65 or \$322.75 for family coverage. The option chosen will have defined terms for participation including specific physicians, clinics and hospitals. In general, the Basic Plan Tier 1 will include the provider and hospital offerings of the Compcore Open Access or Blue Broad Network and Basic Plan Tier 2 will include the provider and hospital benefits of the national "Blue" card. Both of these tiers' benefits include an annual deductible as well as co-insurance payments like that of the Basic Plan.

Individual employee shares in monthly premium payments are projected to increase in Tier 1 from, single and family, \$13.73 and \$26.07 in 2005 to \$62.55 and \$137.65 in 2006. For Tier 2, individual employee shares in monthly premium payments are projected to increase from, single and family, \$49.21 and \$121.93 to \$118.40 and \$322.75. The Basic Plan Tier 1 and Tier 2 are not narrow networks but are very broad networks of physicians and hospitals.

All other city employees will have the one broad Basic Plan option based upon their specific bargaining group.

City Labor Contracts require the City to offer a Basic Plan and an HMO to represented employees. DER will continue to make every effort to identify and select the highest value health care plans from a quality and cost basis.

Any change in benefit structure or benefit plan design for represented employees must be negotiated with each affected union. The process for charging management employees is through Common Council action. Dialogue with all bargaining groups is ongoing in a continued effort to bring some uniformity to the premium structure. The city has proposed to the unions a structure that requires employees to pay the difference for a higher cost plan, regardless of whether they are HMO plans or basic PPO plans. Under this structure or plan, the city would not pay more than a 100% of the lowest cost plan.

2. The 2006 proposed budget increases the Basic Plan Claims account by \$3.4 million from \$30.8 million in 2005 to \$34.2 million in 2005 (11%). The major component of this increase is related to the rising cost of health care in southeastern Wisconsin as well as usage and the types of medical procedures undergone by the enrollees.

To date in 2005, no Contingent Fund transfer has been required to supplement the 2005 Basic Plan claims account.

3. The 2006 proposed budget increases Health Maintenance Organizations (HMOs) funding to \$65.125 million, an 8.5% increase over the 2005 budget of \$60 million. In June 2005, the Common Council approved new rates for one health plan offering two distinct HMO plans. Both plans used the City of Milwaukee uniform benefits. One has a narrow network of providers, the other, more expensive, has a very large network of providers to provide service to city employees and retirees in 2006. The Aurora Family Network HMOs' total cost to the city increased from 2005 to 2006, with the increase for single and family active employees approximately 9.5%. The city pays 100% of this cost. The total cost of the CompCareBlue Broad Network monthly premium has increased 29% with the employee share for city active employees increasing approximately 195%. General reasons for this steep increase in the CompCareBlue plan include the relatively open nature of this network, no co-pays for physician office visits, low co-pays for prescription medications, high usage of health care and the higher than national average of health care costs in southeastern Wisconsin.

For 2006, city employees will have the choice of two HMO networks from one provider, **CompcareBlue: CompcareBlue Aurora Family Network** and **CompcareBlue Broad Network**.

The city's monthly contribution for active city employees enrolled in an HMO in 2006 will be **\$385.75 for single management coverage and \$ 1,053.55 for family management coverage and \$389.30 for single represented employees and \$1,063.05 for family coverage for represented employees**, as the city pays the full premium of the lowest HMO monthly rate. These 2006 figures represent a **9.4%** increase for single coverage and a **9.4%** increase for family coverage from 2005 rates.

For management employees (bargaining groups will pay @ 1% more per month based upon a lower co-pay for prescription medications) choosing the CompcareBlue Broad Network, the single coverage employee share will be **\$252.50** (+195% from 2005) per month and the family coverage employee share will be **\$685.90** (+194% from 2005) per month. Whereas the Aurora Family Network HMO *Family* coverage is defined as to medical staff and location, the *Broad Network* HMO coverage offers a wider choice among hospitals and physicians in the Milwaukee area.

*(Aurora Family Network HMO in the Greater Milwaukee area includes 40 clinics and physician offices that include approximately 400 physicians. Choice is "defined" in that the patient agrees to a specific location and physician for care and, if needed, referrals for specialty care. The Family network has in-house pharmacies, labs, other diagnostic and health-related services. Hospital choice includes five hospitals in the network affiliations and includes Sinai, Saint Luke's South Shore, West Allis Memorial, the Women's Pavilion and Children's Hospital of Wisconsin).

For retirees over the age of 65 years, the city pays 25% of the cost of the total health care premium for the Basic Plan or one of the two HMOs. Based upon the retirees' Medicare status and the plan chosen (there are 9 scenarios for retirees' plans) the monthly rates payable by the retirees range from \$337.31 per month for single coverage to \$1,271.25 for family coverage.

4. The city pays 100% of the Basic Plan costs or a corresponding amount for an HMO with lower costs for management employees who retired prior to 2004. City of Milwaukee management employees, less than 65 years of age, who retired after December 31, 2003, however, contribute the same amount to their health care as active management employees and have no cost for the Aurora family Network HMO. Fire and Police retirees pay for health insurance based on a formula related to their sick leave. For represented retirees after January 1, 2005, the retiree pays the difference for the more expensive HMO and a \$30 Single and \$60 Family premium for the Basic Plan. The lowest cost HMO is the only no cost plan.

The Medicare Act of 2003 is seeking to offer alternatives for the delivery and payment of health care services for those 65 years of age and older. This Act will have implications for the health care coverage for city retirees. DER will examine new Medicare provisions and opportunities in the Milwaukee market in relationship to coverage for city retirees.

In 2006, the City will apply for a subsidy for the Medicare Part D plan as part of the Medicare Modernization Act of 2003. All City retirees over 65 who are enrolled in one of the City health plans currently pays 75% of the premium cost to the City. These retirees should not enroll in a Medicare Part D prescription drug plan because they have prescription drug benefits through the City plan.

The City will investigate the benefit of having a "wrap-around" Medicare supplement plan for 2007 that would allow retirees to choose the Medicare Part D drug plan and the City health plan without the drug benefit. The retiree premium cost of a Medicare supplement without a drug benefit would likely be about half the cost of the current Medicare supplement with the City's drug benefits. Current retirees pay for prescription drugs the same as active employees, a \$4/\$8 co-pay with the HMO plans and a 20% co-insurance with the Basic Plan. The percentage of the over 65 city Medicare supplement spent for prescription drugs in 55%-65% depending upon the plan selected.

5. The 2006 proposed budget decreases by 4% the dental insurance sub-account to \$2.3 million from 2005 funding. The city's contribution for dental insurance has not changed since 1992. \$13.00 is contributed monthly for single coverage and \$37.50 for family coverage. The City will continue to offer prepaid dental plans Care-Plus, DentalBlue and First Commonwealth. Delta Dental will continue as the fee-for-service dental plan.
6. The 2006 proposed budget for Administrative Expenses increases from 2005 with \$1,675,000 in total funding. For 2006, the fees for the cost containment sub-account are rolled into the administrative sub-account. The fees for the basic plan administrator, as well as cost containment oversight, are funded through this sub-account.

This fee reflects per contract per month charges. Approximately 22.8% of active employees and 60% of retired employees are enrolled in the Basic Plan.

7. DER continues to seek health care cost containment by a variety of means:

The discount drug program provides prescription drugs to members at a discount price. Currently, the City reimburses participants in the Basic Health Plan 80% of the cost of prescription drugs. This program provides 15% to 20% discounts for brand name drugs and up to a 40% discount for generic drugs. All Basic Plan members are automatically enrolled in this program, although they do not have to participate. The administrator of the plan in 2006 will be Navitus Health Services. Navitus is providing incentives to members who use generic drugs and to members who use mail order prescriptions.

Beginning in 2005, all city management employees enrolled in an HMO plan began to pay 20% co-insurance for prescription medications with a \$1,000 annually out-of-pocket maximum. This co-insurance was authorized by Common Council File 040427 that sought to encourage and increase the use of generic prescription medications by city management employees with the intention of furthering generic prescription usage by all city employees. City employees in the Basic Plan currently pay 20% of prescription medications, as will management enrollees in the *Tier 1 and Tier 2* plans.

Effective January 1, 2005, any City of Milwaukee management employee who is enrolled for family health insurance coverage as a dependent through a participant in a health insurance that is sponsored for its employees by any state, local, school district or federal governmental body is not eligible for family health insurance coverage under a City of Milwaukee health insurance plan.

Basic Plan participants are also subject to utilization review (an approach to monitoring health care use) by Blue Cross/Blue Shield CMS in 2006. Utilization Review includes pre-authorization and monitoring of services and proactive case management of hospital stays and medical testing and procedures.

8. The City has awarded a contract to a new third party administrator (TPA) for the Basic Plan, Blue Cross Blue Shield /CMS. The City is hopeful the new TPA will help the City avoid larger health care increases. The new TPA will also initiate a Disease Management Program in 2006.

The City has awarded a contract to a new Prescription Benefit Manager (PBM), Navitus Health Solutions. The new PBM for Basic Plan member prescriptions will help the City avoid escalating drug costs. The PBM will work with the doctors of employee and retiree members who utilize higher amounts of prescription drugs to make sure the drugs are appropriate and are the most competitive costs relative to the needs of the member.

The City will also be working with the American Pharmacists Association Foundation and Milwaukee pharmacists in a demonstration program for persons with diabetes based on a very successful program in Ashville, South Carolina. The members will be notified about these services. Health plan providers in Milwaukee will cooperate to make sure their patients who can benefit from this program are aware of this diabetes initiative.

The City will be working with additional unions to explain the Basic Plan Tier 1 and Basic Plan Tier 2 options that are available in 2006 to Management, MBCTC and Local 494 Electrical Workers. The two unions have agreed to pay the full cost of the difference between the low cost HMO premium and the Basic Plan and be eligible for the additional health insurance options.

9. Changes in health benefit premiums for management employees have affected the approach to the rate structures for the various bargaining groups in the city.

The City of Milwaukee “managed competition health care model” continues to provide incentives for employees, both management and represented, to select the best health care value. In 2006 there are significant differences in the costs of the three plans for represented employees and the costs of the five choices for Management, MBCTC and Local 494 Electrical Workers.

The Labor Relations Section of DER has been successful in negotiating higher co-pays for the Basic Plan in these groups, up to \$75 single and \$150 family in 2006. The Basic Plan contributions from retirees covered by these labor contracts will be \$30 single and \$60 family, and for the more expensive HMO, the difference between the low cost HMO and higher cost HMO. The City anticipates additional progress in future contracts mirroring the choices for management employees, management retirees, MBCTC and Local 494 Electrical Workers. The basis of the managed competition model is to give employees and retirees choices, allowing them to choose and pay for a more expensive choice based on their needs.

In 2006, the City anticipates that additional represented employees will leave the high cost CompcareBlue Broad Network HMO and migrate to either the CompcareBlue Aurora Family Network plan that currently includes 50% of active employees, or migrate to the City Basic Plan, which currently includes 20% of active employees. The City anticipates that management employees will also migrate away from the high cost CompcareBlue Broad Network HMO to either the Aurora Family Network HMO or the lower cost Basic Plan Tier 1.

The 2005 changes for management employees included a 20% co-insurance for prescription drugs when they select an HMO. This has resulted in an avoided cost of about 1%. If implemented for all active and retired employees, based on a \$62M HMO budget, the savings would be about \$620,000. The avoided cost results when employees or retirees select an effective lower cost or generic prescription drug based on the 20% co-insurance rather than \$4/\$8 co-pay that gives little incentive to select the effective lower cost higher value medication.

Prepared by: Mark A. Ramion
Fiscal Analyst Senior
Legislative Reference Bureau
October 11, 2005