

LRB-Research & Analysis Section

Finance & Personnel Committee
File: 091351

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Title

Substitute resolution authorizing the Department of Employee Relations to prepare and execute a Request for Proposal for a Health Maintenance Organization and Exclusive Provider Organization (EPO) [vendor] for 2011.

Introduction

This resolution authorizes the Department of Employee Relations (“DER”) to issue a Request for Proposal (“RFP”) for vendors to bid on two alternative health care plans for 2011: (1) continue to insure and administer the City’s existing insured Health Maintenance Organization (“HMO”); and (2) establish and administer a new, City-funded Exclusive Provider Organization (“EPO”) plan to replace the City’s HMO program.

Once received, DER, with the help of the City’s healthcare consultant, Willis Group Holdings, Ltd. (“Willis”), will analyze vendor bids and recommend to the Common Council whether to continue the City’s present HMO program or to replace the HMO with an EPO plan; and which vendor should provide these healthcare services for City employees and the associated costs. The Common Council will then act by adopting a resolution to provide healthcare services.

Background

The City offers employees two healthcare benefit plans, an insured HMO program where the City pays healthcare insurance premiums (less any contribution paid by employees) to an insurer and claims are paid by the insurer, and the Basic Plan, a self-insured plan where the City acts as its own insurance company and pays claims directly after a third-party administrator approves payment.

The HMO does not include prescription medication coverage. Prescription medication benefits are paid directly by the City in a self-insured program administered by Navitus.

Only a single proposal from UnitedHealthcare (“UHC”) was received to insure the City’s HMO for 2010. This proposal called for a 20.4% across-the-board premium increase.

As a result of this substantial premium rate increase, DER’s Healthcare Review Team spent considerable time discussing the possibility of switching to an EPO, even though at

the time existing labor contracts prohibited such plans. An EPO is essentially a self-insured HMO in which the City acts as its own healthcare insurer and pays healthcare claims directly, much as the City does now under its Basic Plan and the prescription portion of its HMO.

In the end, the Review Team agreed with Willis' analysis that the City should opt for UHC's insured HMO proposal despite the 20.4% increase in premiums because the City would be forced to increase premiums even more (22.91%) if the City created a self-insured EPO.

A one-year contract for 2010 was granted to UHC to insure the City's insured HMO in August, 2009. HMO expenses for 2010 are budgeted for \$91,325,000, up 20% from 2009's Adopted Budget of \$81,131,374.

Discussion

DER continues to be concerned over possible steep healthcare premium rate increases from the narrowing field of insurance companies interested in and capable of providing the City's insured HMO, and is soliciting RFP's to insure its existing HMO and to establish and administer an EPO so the Review Team and Willis can analyze both the HMO and the EPO option and recommend the most cost-effective plan for the City in 2011.

All unions representing City employees have agreed, since the HMO contract for 2010 was let last summer, to allow the City to provide either an HMO or an EPO healthcare benefit plan, except the Milwaukee Police Supervisors Organization ("MPSO"), Local #61 and the Allied Services Police Personnel ("ALEASP"). DER's Labor Relations Division expects Local #61 to endorse the EPO model, but is uncertain how the EPO plan option will fare with the other two unions, representing roughly 700 employees.

Fiscal Impact

There is no direct fiscal impact from this resolution because it authorizes DER to only gather information through the issuance of RFP's, and there are no substantial changes proposed in healthcare benefits for employees whether the City provides an HMO or an EPO.