

City Of Milwaukee

---

Benefits Team Recommendations Regarding 2009  
Contracts for Self Insured Medical Plan  
Administration, UR, PPO Network and Prescription  
Drug Plan Management

---

Willis of Wisconsin, Inc.  
One Plaza East, Suite 1400  
330 East Kilbourn Avenue  
Milwaukee, WI 53202-3195  
(414) 271-9800

---

## **Table of Contents**

Executive Summary.....	3
• What are the Recommendations of the Benefits Team?.....	3
• Who was on the Benefits Team?.....	3
How Did the Benefits Team Reach These Recommendations? .....	4
• Self Insured Plan Administrator Selection Process.....	4
• Prescription Drug Plan Manager Selection Process .....	6

## **EXECUTIVE SUMMARY**

### ***What are the Recommendations of the Benefits Team?***

#### **Self Insured Medical Plan Administration**

The Benefits Team recommends that the City accept Anthem's three-year proposal for self insured medical plans claims administration, utilization review services and preferred provider network, effective 1/1/09. This decision was based on provider network discounts that are projected to provide the greatest savings to the City, competitive administration fees, ability to administer the City's plan as well as a high qualitative score.

#### **Prescription Drug Plan Manager**

Based on having both the lowest projected cost to the City as well as receiving the highest qualitative score, the Benefits Team recommends that the City accept Navitus' three-year proposal for the self insured prescription drug management carve out plan effective 1/1/09.

### ***Who Was on the Benefits Team?***

The City staff members on the Benefits Team were:

- **Michael Brady**, Director – Employee Benefits, Department of Employee Relations
- **James Michalski, CPA**, Audit Manager – Office of the Comptroller
- **Aaron Cadle**, Legislative Fiscal Analyst – Office of the City Clerk
- **Edwin Reyes**, Management and Account Officer – Department of Employee Relations
- **Katrina Whittley**, Employee Benefit Analyst – Department of Employee Relations
- **Dennis Yaccarino**, City Economist – Budget Office of the Department of Administration

Assisting the City team were the following individuals:

- **Douglas Ley**, Senior Vice President, Willis of Wisconsin, Inc.
- **Clete Anderson**, Vice President, Willis of Wisconsin, Inc.

The City retained the services of Willis to assist in the following:

- Assist in the preparation of the RFP,
- assist the Benefits Team in evaluating the carrier responses and making recommendations,
- conduct financial analyses, and
- draft this final report.

## ***How Did the Benefits Team Reach These Recommendations?***

### ***Self Insured Plan Administrator Selection Process***

The self insured plan administrator selection process was comprised of three major components:

- Claims administration, also called third party administrator services or TPA,
- Utilization review, or UR, and
- Preferred provider network, or PPO.

All of these services can be purchased individually or bundled with one company. However, to keep the process manageable, the Team decided that the all respondents would have to quote on all three components to be considered. It also recognizes that the coordination among the three components is more likely to be smoother through one company and that a company with the lowest cost network, for example, won't allow another TPA to administer it.

RFPs were e-mailed to the following companies:

Anthem Blue Cross and Blue Shield (incumbent)  
Aetna  
Allied Benefit Systems  
CIGNA  
Humana  
WPS  
UnitedHealthcare (UHC)

Proposals were due May 23. Proposals were received from the following companies:

Anthem  
Humana  
UHC

The proposal from one bidder stated that the City's Basic health plan would have to be revised to include "steerage," i.e., higher benefits paid to network providers than to non-network providers, for their proposal to be valid. The Basic health plan is considered an "indemnity" plan, meaning that benefit levels are the same regardless of the provider chosen. Since changing the benefit plan is not an option due to collective bargaining agreements, the proposal was considered noncompliant and no further analysis was done.

A full analysis was performed on the proposals from the other two bidders. After the analysis was complete and reviewed by the Team, one bidder clarified that the City's health plan would have to have steerage to obtain network discounts. One can conclude that either this made this bidder's proposal noncompliant, or alternatively, utterly uncompetitive since the loss of discounts would cost the City tens of millions of dollars more. As a result, Anthem, which can provide the network and discounts, is the choice to provide TPA, UR and network services for the next three years.

By having only one viable bid one might be concerned that the City could be stuck with costly program with no alternatives. This is not the case. The Team's analysis found that;

- Anthem's total administration fees to provide the same services over the three-year contract period would be roughly \$1 million lower than the other bidder,
- Anthem's network discounts were, in total, as good as or better than the other bidder. Discounts for Anthem's networks for the City are averaging over 40%, which is excellent, and
- Anthem's qualitative scoring was the same the other bidder.

In other words, Anthem had a higher score than the other bidder and was the choice of the Benefits Team before finding out that the other bidder's proposal was not viable.

There are other reasons for remaining with the incumbent, including much less time and expense associated with changing administrators, communicating the change to employees and their families as well as possible network provider disruption. Also, there is value in maintaining a relationship with one administrator rather than changing every three years. All this adds up to Anthem being the best choice, not the only choice.

This result sheds light on problem of the City continuing an indemnity-style basic health plan. Few vendors are able to provide network discounts with this plan design and the day may come when no vendor will.

***Prescription Drug Plan Manager Selection Process***

Prescription drug programs are routinely placed with firms other than TPA, and the City has the prescription drug benefits for both the Basic plan and HMO with a separate firm, so in addition to sending the RFP to the TPAs to provide PBM, prescription benefit manager, services, the Team also sent the RFP to stand alone PBMs. Here is a list of the proposals the Team received:

Navitus (incumbent)  
Medco  
Restat  
Walgreens  
WellPoint  
Wisconsin Rx/Caremark

Since some of the bidders offered more than one proposal, the total number compared was eight.

“Transparency” is a watchword these days for PBMs. Concern has been growing over poorly disclosed amounts that PBMs are being paid, primarily through some portion of the rebate that prescription drug manufacturers pay for use of certain of their drugs, or through the PBM “skimming” some of the discount negotiated with drug manufacturers. The RFP asked the respondents to address this issue and close attention was paid to it.

The financial analysis of the PBMs is similar to that used for the medical plan network analysis. The PBM might charge an administrative fee, either per script or per employee per month. There are dispensing fees paid to the pharmacist for the retail program. Annual fee amounts were determined for each proposal based on the expected number of prescriptions for 2009.

The next step was to determine the relative values of their discounts, and the resulting impact on net claim cost to the City. Each bidder was asked to provide its discount off of average wholesale price, called AWP, for retail brand and retail generic drugs, and for mail order brand and mail order generic drug.

The last step of the analysis regards rebates. The RFP asked the PBMs how much of the rebate that they would keep and whether the amounts of the rebate they provided in their proposals were estimates or guarantees.

The relative saving of these programs is not one year only, so we projected the costs for the three-year period of the contract using the same cost and script trend factors for all proposals.

The RFP requested the PBMs give their per pill prices for a list of the top 25 prescription drugs by cost used by City participants in 2008.

We compared the per pill prices. Those per pill prices are not included in this report because of their proprietary nature. Using the average Navitus pill price as the base line, the ingredient costs for the other bidders were calculated based on the average ratio of the average pill price

## City Of Milwaukee

Benefits Team Recommendations Regarding 2009 Contracts for Self Insured Medical Plan Administration, UR, PPO Network and Prescription Drug Plan Management

June 17, 2008

to Navitus. The administration and dispensing fees were added. Here are the three-year results.

Here is a summary of the three-year total results.

PBM	3-Year Total Cost	Difference	% Change	Rank	Rebates	Three Year Net	Difference	% Change	Rank
	Excluding Rebates	From Lowest	from Lowest			Cost	From Lowest	from Lowest	
Navitus	\$82,358,484	\$0	0.0%	1	(\$2,460,206)	\$79,898,278	\$0	0.0%	1
Wellpoint - Pass Through Commercial Plans	\$84,007,531	\$1,649,047	2.0%	2	(\$3,729,386)	\$80,278,145	\$379,867	0.5%	2
Wellpoint - Pass Through Medicare Part D Plan	\$84,155,917	\$1,797,433	2.2%	3	(\$3,870,016)	\$80,285,902	\$387,624	0.5%	3
Wisconsin Rx/Caremark - Traditional	\$84,035,635	\$1,677,151	2.0%	4	(\$3,524,175)	\$80,511,460	\$613,182	0.8%	4
Wisconsin Rx/Caremark - Transparent	\$84,856,814	\$2,498,330	3.0%	5	(\$3,705,623)	\$81,151,191	\$1,252,913	1.6%	5
Walgreens	\$86,341,003	\$3,982,519	4.8%	6	(\$2,325,676)	\$84,015,327	\$4,117,049	5.2%	6
Medco	\$86,488,900	\$4,130,416	5.0%	7	(\$4,784,867)	\$81,704,033	\$1,805,755	2.3%	6
Restat	\$90,122,704	\$7,764,220	9.4%	8	(\$3,661,756)	\$86,460,948	\$6,562,670	8.2%	8

Navitus showed the lowest total ingredient, dispensing administration fee and three-year total cost, with the two WellPoint quotes being second and third.

The Benefits Team agreed that using actual per pill prices is more accurate than using reported discounts.

The team looked at the financial results both with and without the impact of rebates. This was done because many of the rebate amounts provided by the bidders were estimates, which would reward them in the standings the higher they made those estimates. The Navitus proposal was lowest both with and without rebates factored in. This gave Navitus a score of 7.0 for the financial analysis, with the remaining scores based on the ratios to the lowest cost.

Navitus earned the highest qualitative score, 7.0 versus 6.5 for the other bidders.

Based on both the best financial score and qualitative score, Navitus was chosen as the PBM for the City's self insured prescription drug plans effective 1/1/09.

There are other reasons for remaining with the incumbent, including much less time and expense associated with changing administrators, communicating the change to employees and their families as well as possible network provider disruption. Also, there is value in maintaining a relationship with one administrator rather than changing every three years. Lastly, Navitus is doing a good job for the City.