

**FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU**

**Executive Summary-2005 Proposed Budget: Employee Health Care Benefits – SPA**

**Department of Employee Relations (DER)**

1. Between 1999 and 2003, the average annual increase for employee and retiree health benefits for the City of Milwaukee was 9.4% (Page 3).
2. An 18% increase (overall) for employee and retiree health benefits is projected for 2004 to 2005 (Page 3).
3. The 2005 proposed budget includes the approved new rates for one HMO health insurer offering two distinct health plans that were expected to provide service to city employees and retirees in the year 2005 (Pages 4-6).
4. Management employees will also have the opportunity to choose an alternative to the broad Basic Plan, providing a “Patient Choice” with two alternative tiers of care systems to the broad Basic Plan (Page 4).
4. The 2005 proposed budget increases the Basic Plan Claims account by \$6.3 million from the 2004 budget. Of the \$6.3 million increase for Basic Plan claims, \$3.7 million is for accruals of 2004 expenditures that will, most likely, be paid in 2005 (Pages 4-5).
5. The 2005 proposed budget increases the HMO funding account by \$8.6 million from the 2004 budget. The increase is based on actual utilization and experience of all active and retired employees (Pages 5-6).
6. The city’s contribution for HMOs remains at 100% of the lowest HMO for each category of coverage. For 2005, the city’s monthly contribution will be \$352.29 for single coverage and \$962.13 for family coverage for management employees and \$355.61 for single coverage and \$970.80 for family coverage for non-management employees. The lower cost for management employees reflects the lower total cost for the city for management employees based upon the 20% co-insurance for prescription drugs that was approved for management employees (Pages 5-6).
7. The 2005 proposed budget decreases by 3% the dental insurance sub-account to \$2.4 million from the 2004 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 6).
9. The 2005 proposed budget for Administrative Expense remains the same as in 2004, \$1,226,100. This fee reflects per contract per month charges from WPS that will not change in 2005 (Pages 6-7).

10. DER will engage in various reviews and initiatives in 2005 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 7-8).

**FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU**

**2005 Proposed Budget Summary: Employee Health Care Benefits – SPA**

**Department of Employee Relations (DER)**

<b>EHCB Sub-Account</b>	<b>2003 Actual</b>	<b>2004 Budget</b>	<b>Change</b>	<b>2005 Proposed</b>	<b>Change</b>
Claims	\$ 25,243,939	\$ 24,500,000	-2%	\$ 30,800,000	25%*
HMO	47,841,061	51,400,000	7%	60,000,000	16%
Dental Insurance	2,365,312	2,475,000	4%	2,400,000	-3%
Admin. Expenses	1,161,879	1,226,100	5%	1,226,100	-
Cost Containment	319,716	300,000	-6%	300,000	-
<b>TOTAL</b>	<b>\$ 76,931,907</b>	<b>\$ 79,901,100</b>	<b>3%</b>	<b>\$ 94,726,100</b>	<b>18%</b>

\* This 25% increase in the claims account includes \$3.7 million for accruals for 2004 expenditures. Without these accruals, the increase in the claims account would be approximately 10%.

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 1999 and 2003, the average annual increase in expenditures for employee health benefits was 9.4%.

<b>Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Actual Expenditure	\$51,895,038	\$56,697,113	\$62,659,288	\$74,917,275	\$76,931,907
% Change	5.6%	9.3%	10%	20%	2%

*This average 9.4% annual increase in expenditure contrasts with 20% between 2001 and 2002 and the 18% projected increase between 2004 and 2005.*

2. The city's monthly contribution for HMOs is capped at 100% of the lowest priced HMO premium. For 2005, this amount is \$352.29 for single coverage and \$962.13 for family coverage for management employees and \$355.61 for single coverage and \$970.80 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 2005 ranges from \$50.00 for single coverage and \$100.00 for family coverage to \$171.57 for single coverage and \$289.55 for family coverage. The actual employee contributions to the Basic Plan vary with the respective collective bargaining unit and are subject to labor contracts.
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.

### **2005 Major Issues and Proposed Changes**

1. The 2005 proposed budget reflects a decrease in the employee's contribution for the Basic Health Plan for active city management employees.

Management currently comprises 7% - 92 members - out of approximately 1,293 total active employees enrolled in the Basic Plan. These 92 members represent approximately 13% of all city management employees.

**The monthly Basic Plan premiums for management employees effective January 2005 are as follows:**

- Decrease by \$12.89 from \$184.46 to \$171.57 for single coverage (-6%)
- Decrease by \$36.59 from \$326.14 to \$289.55 for family coverage (-11%)

Management employees will also have the opportunity to choose an alternative to the broad Basic Plan, providing "Patient Choice" care systems. Patient Choice is a defined plan, offered by WPS, limiting the participants' choices to participating care systems including physicians, clinics and hospitals. Management employees will have the choice of two tiers (in addition to the broad Basic Plan). Employee monthly premiums are calculated above the city share for the baseline low-cost HMO.

Management employees will pay monthly premiums of \$13.73 and \$49.21 for single coverage and \$ 26.07 and 121.93 for family coverage for narrow network coverage. Benefits are the same as the Basic Plan benefits with \$100 single/\$300 family annual deductibles, the same as the Basic Plan. Management employees choosing this narrow option will pay more, however, if, independent of their physician, they choose to seek health care outside of their care system network network.

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. Dialog with all bargaining groups are 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 2005 proposed budget increases the Basic Plan Claims account by \$6.3 million from \$24.5 million in 2004 to \$30.8 million in 2004 (25%). 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. An additional factor in the Claims account increase is the budgeting of \$3.7 million for accrued expenses that are charged to 2004 services.

To date, no Contingent Fund transfer has been required to supplement the 2004 Basic Plan claims account.

3. The 2005 proposed budget increases Health Maintenance Organizations (HMOs) funding to \$60 million, a 16% increase over the 2004 budget of \$51.4 million. In June 2004, the Common Council approved new rates for one HMO provider offering two distinct health plans that were expected to provide service to city employees and retirees in the year 2005. The Aurora Family Network HMOs' rates increased from 2004 to 2005, with the increase for single and family active employees approximately 5%. The CompcareBlue Broad Network cost to the city for active employees has increased approximately 18%. A primary reason for the increase in the CompcareBlue plans was related to the 2003 experience in which CompcareBlue paid out more in claims than it received in premiums relative to its contract with the city. In 2003, CompcareBlue's loss ratio, in the case or retirees, exceeded 100% for both the Aurora Family Network and the Broad Network. An acceptable loss ratio is @ 90%.

For 2005, 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 2004 will be **\$352.29 for single management coverage and \$ 962.13 for family management coverage and \$355.61 for single represented employees and \$970.80 for family coverage for represented employees**, as the city pays the full premium of the lowest HMO monthly rate. These 2005 figures represent a **5%** increase for single coverage and a **5%** increase for family coverage from 2004 rates.

For employees choosing the CompcareBlue Broad Network, the single coverage employee share will be **\$85.49 (+56% from 2004)** per month and the family coverage employee share will be **\$233.38 (+128% from 2004)** per month. Whereas the Aurora

Family Network HMO *Family* coverage is limited\* to medical staff and location, the *Traditional* 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 "limited" 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 is limited to the network affiliations and includes Sinai, Saint Luke's South Shore, West Allis Memorial, the Women's Pavilion and Children's Hospital of Wisconsin).

4. Eligible City of Milwaukee management retirees, who retired before January 1, 2004 can select any health insurance plan the city offers at no cost until they reach 65 years of age. 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 AFN HMO. Fire and Police retirees pay for health insurance based on a formula related to their sick leave. Eligible represented employees from other bargaining groups have a choice of three plans at no cost.

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.

The Medicare Act of 2003 provides private health maintenance organizations with a fixed sum of money for every over 65 Medicare retiree they sign up. The Medicare advantage plans offered by Humana and United HealthCare (UHC) in Milwaukee provide different benefits and different monthly premiums than the city's Medicare supplement. Humana has two plans, one with a \$27 monthly premium and one with a \$160 monthly premium. The benefits under the latter are different. UHC offers a no monthly premium plan that has different benefits. The current Medicare advantage plans with lower monthly premiums do not provide the same level of benefits that are offered by the city's Medicare supplement. The city's Medicare supplement has higher monthly premiums. Some retirees might be better off with a lower monthly premium and higher out of pocket expenses. At this time, the city does not know how many Medicare retirees will enroll in the Medicare advantage plans. For those that do enroll in the Medicare Advantage plans the city would save the 25% subsidy it currently contributes to their city plan.

5. The 2005 proposed budget decreases by 3% the dental insurance sub-account to \$2.4 million from 2004 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 2005 proposed budget for Administrative Expenses remains the same as 2004 with \$1,226,000 in funding. The fee for the basic plan administrator is funded through this sub-account. There is no change in the WPS administrative fee from 2004 to 2005. This fee reflects per contract per month charges. Approximately 19% 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.

Beginning in 2005, all city management employees enrolled in an HMO plan will begin 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 seeks 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 *Patient Choice* plans. There is no out-of-pocket annual maximum for prescription medications for either the Basic Plan or *Patient Choice*.

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 WPS. Utilization Review includes pre-authorization and monitoring of services and proactive case management of hospital stays and medical testing and procedures.

8. The Department of Employee Relations, Employee Benefits, will do a Request for Proposals (RFP) in 2005 for both the Health Maintenance Organizations (HMOs) and for the Basic Plan third-party-administrator health insurance services. These RFP's for 2006 health insurance services will be prepared in February, approved by the Common Council in March, distributed to health vendors in April, returned and reviewed by the City in May, with approval by the Common Council in June of 2005.

9. DER anticipates that changes will continue in the health care market. The Milwaukee health care marketplace is undergoing scrutiny from independent studies, various task forces and commissions.

DER continues to follow the recommendations the Milwaukee Task Force on Health Care Cost Controls issued in September 2003.

Specific recommendations the city is pursuing include:

- “Encourage Employee Health Care Choices” which is being done in 2005 with the introduction of Patient Choice to management employees;
- “Promote Health and Prevent Disease for a Healthier Milwaukee” which will continue in 2005 with additional wellness initiatives from the HMOs and Basic Plan administrator;
- “Improve Health Care Quality” in addition to the Patient Choice plan, the city will continue to provide information to all active and retired employees regarding the Leapfrog Safety standards and the Wisconsin Hospital Association Checkpoint data that compares standard data from area hospitals to facilitate health care decision making based on cost and quality data;
- “Promote Cost Effective Drug Use” which includes a change from co-pay to 20% coinsurance for management employees enrolled in an HMO in 2005, as well as utilization of the Wellpoint Prescription Benefit Manager for HMOs and the utilization of the Paid Prescriptions Prescription Benefit Manager for those in the Basic Plan;
- “Eliminate Legislative Obstacles” which includes the sharing of the preliminary GAO report in August 2004, and the final report in 2005 to the larger Milwaukee employer, health care provider and insurance community. The findings of the report will help the city to better understand the reasons for the higher health care costs in Milwaukee and take action to control them.

10. DER will review alternative Prescription Benefit Managers (PBM) as preliminary work progresses toward the RFP process in 2005, including a review of the State PBM, a WEAC PBM, options involving Canadian drugs, a change in the current drug formulary, as well as carve out of the current drug contracts with CompcareBlue and WPS.

The Department will continue to meet with public and private employers, as well as coalitions or organizations focusing on controlling health care costs and improving quality. These include the Business Health Care Group of Southeast Wisconsin, the Wisconsin Purchasers for Health Care Quality, the Greater Milwaukee Business Group on Health, the Wisconsin Hospital Association, the WEA Trust, the Wisconsin State AFL-CIO as well as local public employers such as Milwaukee County, Milwaukee Public Schools and the State Employee Trust Funds office. The City has initiated discussions with the Labor-Management Coalition of the Upper Midwest. DER has met with labor management health care groups from all City of Milwaukee unions to share information about the Patient Choice health plan. Meetings currently are focused on sharing information about the health plans and benefits of the individual employers.

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## FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

### Executive Summary: 2005 Proposed Budget Summary - Port of Milwaukee

1. In 2004, construction is completed on the ferry terminal and the ferry is delivered and both are open for business. *(Page 4)*
2. In the 2005 Proposed Budget, the Port has 29 authorized positions, a decrease of 4 positions, -12.1%, from the 2004 Budget of 33 positions. *(Page 5)*
3. In the 2005 Proposed Budget, total Operating Expenditures are \$865,220, an increase of \$86,369, 11.1%, from the 2004 Budget of \$778,831. *(Pages 5 and 6)*
4. Tonnage, revenue projections and other Port activities:
  - Cargo tonnage *(Page 6)*
  - Lease agreement *(Pages 6 and 7)*
  - River Barges *(Page 7)*
  - Cruise ships are scheduled through Great Lake tours *(Page 7)*
5. The 2005 Proposed Budget provides \$725,000 for capital improvements projects, an increase of \$75,000, 11.5%, from the 2004 Budget of \$650,000. *(Pages 8 and 9)*
6. In the 2005 Proposed Budget, Special Funds provides \$1,315,000, an increase of \$94,899, 7.8%, from the 2004 Budget of \$1,220,101. They include Major Maintenance of Terminal and Piers for \$72,600 and Major Rehabilitation and Upgrades for Equipment for \$50,000. *(Pages 8 and 9)*
7. In the 2005 Proposed Budget, the Comptroller's office has estimated that \$3,557,378 is expected in revenue, an increase of \$134,469, 3.9%, from the 2004 Budget estimate of \$3,422,909. *(Page 10)*