

BACKGROUND INFORMATION

Mandating the City of Milwaukee to offer a High Deductible Health Plan (HDHP) to Protective Service Employees

Cost Estimate Breakout

City's Health Savings Account (HSA) Contribution:	\$3,200,000
Increase in Health Care Costs to City:	<u>\$2,800,000</u>
Total Cost to City	<u>\$6,000,000</u>

1. While an HDHP with a \$750 single/\$1500 family HSA may save the State money, such a plan would create a liability of approximately \$6.0M for the City.
 - a. The HDHP results in an upfront HSA contribution for participating employees, independent of utilization, at a higher cost to the City of approximately \$3.2M
 - b. The more generous plan design results in a richer plan with higher utilization causing an increased plan cost of \$2.8M to the City.
 - c. The City implemented health care benefit design changes including deductibles and premium payments in 2012 and continues to realize significant avoided costs from those changes.
 - d. The high amount of savings that the State will recognize in 2016 comes primarily from adding deductibles to its Uniform Plan (in which 98% of state employees are enrolled).
2. Mandating the City to implement identical benefit changes to the State repeals the action, only for the City of Milwaukee, that was adopted in the last state budget which allowed Wisconsin Municipalities to manage their benefit design decisions.
3. Based on its ability to manage healthcare design, the City has demonstrated fiscal responsibility by managing and controlling total health care costs. In fact, City health care costs have remained flat for four years as evidenced by the actuarial equivalent total cost for a Single Plan detailed below.

2012	\$623.96	2014	\$621.76
2013	\$536.78	2015	\$622.00

Overview

For most standard HDHPs, the participant pays more up front for medical costs because of a higher deductible and greater out-of-pocket maximum (OOPM). This lowers overall utilization and lowers the total premium cost for the organization as well as the participant. In addition, most participants who take a HDHP are likely not anticipating a high amount of health care costs which also helps to lower the premium cost.

The State's HDHP has a higher deductible and OOPM than the State's other plans, even with the HSA contribution of \$750 Single/\$1,500 Family. In addition, the employee premium contribution for the State HDHP Plan is lower and not linked to the overall premium cost of the plan because the state's plan is fully insured unlike the City's plan which is completely self-insured.

For City sworn members, having the equivalent of the State's HDHP is a highly attractive option because it provides a richer plan at roughly the same costs to members as the City's EPO plan. Since the City would be contributing half of the "high deductible" it's really not a high deductible

plan. Members would get \$1,500 worth of utilization, but would only have to pay \$750 of that because the City would be paying the other \$750 through the HSA. This would likely encourage greater utilization of our plan and lead to a total higher premium cost to the city.

Willis projects that the State's HDHP would lead to a total premium equivalent value that is 7% higher than the City's EPO plan. While the State HDHP plan has higher deductible and out-of-pocket provisions than the City's EPO health plan, which would lower the cost, the employer-paid HSA amount will be paid to every enrolled employed regardless of whether they have any claims, with the combined result being a higher total employer plan cost than the City's plan.

It's important to note that in the last state budget, legislation was included that gave municipalities, including Milwaukee, flexibility to manage their health insurance plans in a responsible and cost effective manner. Milwaukee has done that while continuing to offer a fair plan to all of its employees. The proposed language essentially repeals that language only for Milwaukee, which as a self-insured entity absolutely needs the flexibility to address health care costs based on local considerations, and not a state mandate.

In addition, public safety employees have retained their collective bargaining rights and as such have continued to get reasonable wage increases. The rest of the City's workforce has not been that fortunate and have experienced a series of freezes or more modest wage increases. Despite this, the City has been able to keep our health plans uniform in design and cost. The language would give public safety a better plan and continue to widen the already large disparity between public safety employees and the remaining City workforce.

Most importantly, the HDHP adds additional costs to the City of \$6M annually. The City will pay approximately \$3.2M to fund annual HSA's for sworn members which would be an added expense for the City. Because sworn members will have a richer plan, utilization is projected to increase resulting in additional \$2.8M total costs to the City.

Background Information and Assumptions

- Approximately 2,500 sworn members are enrolled in the City's Health Insurance Plan
- Roughly 23% are enrolled in the Single Plan (Tier 1) and 74% are enrolled in the Family Plan (Tier 2-4).
- The City's UHC Choice plan is selected by 95% of all employees. The plan has deductibles of \$750/single and \$1,500/family, co-insurance of \$750/single and \$1,500/family and out of pocket \$1,500 single/\$3,000 family.
- The State's current 2015 deductibles are zero for its Uniform Plan in which 98% of State employees are enrolled.
- The State's current co-insurance and out of pocket amounts for the Uniform Plan are considerably lower than the City of Milwaukee.
- The State's 2016 changes in deductibles, co-insurance, out of pocket maximums for the Uniform Plan are lower than the City's 2015 Plan.
- The State's HDHP for 2016 includes the following benefit design:
 - Deductibles of \$1,500 Single/\$3,000 Family
 - HSA Contribution of \$750 Single/\$1,500 Family
 - Out-of-Pocket Maximum of \$2,500 Single/\$5,000 Family

- The City's plan is self-funded while the State's plan is fully insured. The City is at risk for total costs and does not pay an insurance company a monthly fee, but pays administrative fees and the actual costs of the claims.
- It is assumed that most City sworn members will take the HDHP.
- City employees will continue to pay 12% of the actuarial determined total premium cost and not a fixed amount as determined by ETF for State employees.