

LRB-FISCAL REVIEW SECTION ANALYSIS

FINANCE & PERSONNEL COMMITTEE

ITEM 6, FILE # 050300

JUNE 29, 2005

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File # 050300 is a substitute resolution authorizing contracts for health maintenance organizations for 2006, basic health plan services for 2006-2008 and prescription benefit management services for 2006-2008.

Background

1. This resolution will authorize the City of Milwaukee Department of Employee Relations (DER) to enter into contract extensions with Compcare Blue Health Services for its CompcareBlue Broad HMO network and Compcare Blue Aurora Family HMO services for active and retired employees for 2006.
2. This resolution will further authorize DER to enter into a contract with Blue Cross Blue Shield of Wisconsin and Claim Management Services, Inc. (CMS), a subsidiary of Blue Cross Blue Shield, for administrative services associated with the City of Milwaukee’s Basic Health Plan for active and retired employees for 2006, 2007 and 2008.
3. This resolution will further authorize DER to enter into a contract with Navitus Health Services for prescription benefit management services for three years, 2006, 2007 and 2008. This prescription drug benefit management service will serve active and retired employees enrolled in the Basic Plan. HMO enrollees will receive pharmacy benefits through their respective plans.
4. This resolution advances the recommendations from the City of Milwaukee DER for the employee benefit programs under consideration.

Discussion

1. The HMOs recommended by DER offering 2006 rates to the city are CompcareBlue Aurora Family Network and CompcareBlue Broad Network.

Monthly rates for Active Employees (HMOs):

| | Single Coverage Rate | | | Family Coverage Rate | | |
|---------------------|----------------------|-----------------|----------------|----------------------|-------------------|----------------|
| | 2005 | 2006 | Increase | 2005 | 2006 | Increase |
| Health Plan | | | | | | |
| Family Network | \$355.61 | \$385.75 | \$30.14 | \$970.80 | \$1,053.55 | \$82.75 |
| Broad Network | \$441.10 | \$636.95 | \$195.85 | \$1,204.18 | \$1,739.45 | \$535.27 |
| City’s Share | \$355.61 | \$385.75 | \$30.14 | \$970.80 | \$1,053.55 | \$82.75 |

The city's monthly contribution for active city employees enrolled in an HMO in 2006 will be **\$385.75 for single coverage and \$ 1,053.55 for family coverage**, as the city pays the full premium of the lowest HMO monthly rate. These 2006 figures represent an **8%** increase for single coverage and an **8%** increase for family coverage from 2005 rates.

For employees choosing the CompCareBlue Broad Network plan, the single coverage premium will be **\$251.20** per month and family coverage will be **\$685.90** per month. Whereas the *Aurora Family Network* coverage is "narrow" (including Children's, Sinai, St. Luke's South Shore and West Allis Memorial hospitals) and limited to Aurora-affiliated medical health centers, staff and location, the *Broad Network* coverage includes all hospitals and most physicians in the Milwaukee area.

2. The following is a projection of the 2006 premium shares for employees enrolled in the Basic Plan:

Monthly rates for Active Employees (Basic Plan):

| City Group | Single | Family |
|-------------------|---------------|---------------|
| Management | \$258.60 | \$398.62 |
| DC #48/Others | \$60 | \$120 |
| Fire and Police | \$60 | \$120 |

The city's projected 2006 premium for the Basic Plan is \$ 644.35 for single coverage and \$1,452.17 for family coverage, an increase of 23% for single coverage and 16% for family coverage. The management employee monthly share will increase by 50% for single coverage and 37% for family coverage from 2005 premiums.

For 2006, for general management employees and some bargaining groups, the Basic Plan will offer two "Tier" options 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 offerings of the CompCare Blue Broad Network and Basic Plan Tier 2 will include the medical benefits of the national "Blue" card. Both of these tiers include an annual deductible as well as co-insurance payments.

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.

3. Health care benefits for **retirees** are currently categorized in two groups:

For those **under** age **65** years, the city pays 100% of the low cost HMO for management retirees who retire after January 1, 2004, 100% of any plan for those management employees who retired before January 1, 2004 and continues to pay 100% of any plan for eligible general

city retirees (excluding police and fire personnel). City payment for fire and police retirees in this category is dependent upon a formulary ranging from 0%-33%.

For those age **65 years and older**, the city pays 25% of any health plan selected, basic or HMO. The cost of the plan for the individual will be dependent upon the retirees' Medicare status and whether or not there is a spouse or dependent child/children to be included.

4. The 2006 expenses related to the CMS administration of the Basic Plan are projected to be \$1.3 million.
5. The recommendation to contract with CMS and end the relationship with WPS for the Basic Plan administration was based upon projected total savings, over a 3-year period, from \$4.6 million (the next lowest vendor, Humana) to \$25 million (WPS). CMS and Blue Cross Blue Shield projects these savings based, primarily upon the deep discounts that the "Blue" is able to achieve from health care providers.
6. The recommendation to contract with Navitus Health Solutions for pharmacy benefits is based upon this vendor's projection of a net 3-year cost of \$34.3 million, \$1.7 million less than the next lowest vendor. Navitus has the highest discounts and rebates of the vendors who submitted proposals.

Fiscal Impact

1. DER notes that the increase in HMO rates for 2006 will require approximately **\$70.7 million** for the HMO line in the Special Purpose Account for employee health benefits. This amount represents an **additional \$10.7 million** (+17 %) from the 2005 adopted budget.
2. The Basic Plan and Pharmacy Benefits Claims are budgeted for \$36,115,000. This amount is an approximate 17% increase from the 2005 adopted budget.

DER Employee Benefits and the Budget Office notes that the amounts referenced will be adjusted lower when the 2006 proposed budget is submitted to the Common Council. At this point, the discounts and savings projected by Blue Cross Blue Shield and CMS have not been applied. Additionally, there will, most likely, be significant employee migration from the Compcare Broad Network to one of the offerings of the Basic Plan or the Aurora family Network that will affect both of these major sub accounts.

Other Information

1. City of Milwaukee Employee Benefits Recommendation Team members:
 - Michael Brady, Benefits Manager, DER
 - James Michalski, Audit Manager, Comptroller's Office
 - Edwin Reyes, Management and Account Officer, DER
 - Dennis Yaccarino, City Economist, Budget Office
 - Katrina Whittley, Employee Benefits Analyst, DER

- Mark Ramion, Fiscal Review Analyst-Sr., LRB

Consultants:

- Douglas Ley, Willis of Wisconsin, Inc.
- Clete Anderson, Willis of Wisconsin

2. The 2005 budget provides \$30,000 for consultant services related to analysis of health care costs and recommendations for cost reduction plans.

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LRB-Fiscal Review Section
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