

July 13, 2011

To: City of Milwaukee Employees and Retirees

From: Michael Brady

Re: Recommendation for Sustainable Health Care Benefits for City Employees and Retirees

There has been much discussion about the current health care benefits of the City of Milwaukee being sustainable over the long term for both employees and retirees. The net City costs have increased \$14M in 2010 and \$15M in 2011. Below is a plan to create a more sustainable benefit design that includes changes and premium contributions from active general city employees. These recommendations are made after careful consideration and discussion with the Budget Office regarding the ongoing financial challenges facing the City related to Act 10 and the State budget. The City health care plan benefits remain very comprehensive with employee cost-sharing below most private sector firms and in line with what public employees will pay. The City will continue to provide a robust pre-65 health benefit for retired City employees.

The recommendations would be effective January 1, 2012 for City employees. (*)

The City will receive a reduction of over \$14M in state revenue, and generally speaking will be unable raise revenue through taxes. Major challenges in 2013 include meeting an expected \$50M contribution to the Employee Retiree System. The recommendations below are likely to reduce the total City net expenditures on health insurance from the estimated \$137M in 2011 to approximately \$110 to \$115M in 2012. The changes recommended are not made lightly. The control of future health care expenditures will mitigate the need for future benefit design changes.

The Department of Employee Relations will hold a televised meeting with employees on Wednesday July 13 at noon in Room 301-B and will make a copy of the presentation available on the City DER website so all employees can view the presentation. The same recommendations will be submitted for approval to the Finance and Personnel Committee on Wednesday July 20.

Recommendation #1, Employee Premium: All public employees in the state of Wisconsin will begin paying 12% of the total premium for their health care. This 12% is less than many private sector employees pay. Beginning January 1, 2012 active general City employees, including all civilian personnel within the Police and Fire departments, would pay 12% of their 2012 premium. When new labor contracts are negotiated with sworn employee unions it is anticipated they will also pay 12%. Sworn unions will continue to pay current premiums until new labor contracts are settled. The Building and Construction Trades Council (BCTC) and Local 494 Electrical Workers have contracts that extend into 2012, and will not pay the 12% until their contracts expire.

The employee premium would be charged based on a four-tier plan -- single, single adult with dependent/s, two adults and two adults with dependent/s. The City currently uses a two-tier system of single only and family. Employee premiums would be taken twice a month or 24 times per year in 2012. The City currently takes a single monthly deduction, or 12 per year.

Recommendation #2, Benefit Design: All City employees and retirees, both general city and sworn, will have new benefit design for both their HMO/EPO plan and their Basic Plan/PPO plan. The new benefit designs are described on the attached page.

HMO/EPO Plan: All preventive services as determined by the plan are covered at 100%. Changes to the plan include a \$500 deductible, a 90% co-insurance, and a \$1000 out of pocket maximum. The three-tier drug plan will change to \$5/\$25/\$50. The three tier plan is not part of the deductible, co-insurance or out of pocket maximum. Employees would have a \$150 co-pay for emergency room visits after they have satisfied their deductible, co-insurance and out-of-pocket maximum. This EPO plan will cover services in-network and will not cover services out of network.

Basic Plan/PPO Plan: All preventive services as determined by the plan are covered at 100%. Changes to the plan include a \$750 in-network deductible, a 90% co-insurance in-network, and a \$1500 in-network out of pocket maximum. The out-of-network deductible would be \$1500, the out-of-network co-insurance is 70% and the out-of-network out of pocket maximum is \$3000 This PPO plan will have a three tier drug plan, \$5/\$25/\$50, the same as the EPO plan. The drug co-pay is not part of the deductible, the co-insurance or the out of pocket maximum. This PPO plan will cover services in network and services out of network.

The City anticipates that these changes will help employees become better consumers of their health insurance. They will have the ability to work with their provider to identify the best services at the lowest cost. UnitedHealthcare will be able to work with employees to help them identify the best services at the lowest cost.

The City will continue to provide a three part comprehensive wellness effort through Froedtert Health Workforce Health at no direct cost to employees. Employees and their spouses who fail to complete the process within the timeline set by Workforce Health will have a monthly health assessment fee in 2012.

In a separate resolution DER is recommending that the City enter into a three-year contract with UnitedHealthcare to provide "Exclusive Provider Network" services (EPO) or HMO equivalent plan, that the City enter into a three year contract with UnitedHealthcare to provide Preferred Provider Organization services (PPO) or Basic Plan equivalent services, and that the City enter into a three year contract with Medco for prescription benefit services.

Recommendation #3, New Retiree Premiums: All general city employees, including civilian employees in the Police and Fire Department, would pay the same premium as active general city employees if they retiree after January 1, 2012.

- Employees under 65 who go through regular retirement before their current labor contract expires will have a premium established by that labor contract.
- General City employees under 65 who go through regular retirement after their labor contract expires will pay the same as active general city employees (12% of their premium).
- New sworn retirees under 65 will have their retiree premiums established through current or future labor contracts.
- Medicare retirees will have the choice of the Basic Plan/City PPO plan as a type of Medicare supplement with the same benefit design as active employees with the in-network and out of network deductibles, co-insurance and out of pocket amounts.
- Medicare retirees will be able to chose the UHC Choice plan with the same benefit design as active employees, including the deductible, co-insurance and out of pocket maximum.

- Medicare retirees will have the opportunity to chose the UHC PPO plan with the current benefits (will not include deductible, co-insurance or out of pocket maximum).
- Medicare retirees will be able to select from the two plans provided through the Milwaukee Retiree Association (MRA) which are not sponsored or subsidized by the City.

Example of how a deductible, co-insurance and maximum out of pocket **EPO plan** works for a single adult with no dependents.

- Employee pays the first \$500 for services, excluding preventive which are covered at 100%
- Employee pays 10% co-insurance for the next \$5000 in costs of service, or \$500, while the City pays \$4,500.
- After paying \$1000, employee has reached out of pocket maximum, and the City, with the exception of emergency room visits, will pay 100% of any additional costs.
- Any out of network services are paid 100% by the employee and do not count toward the deductible, co-insurance or out of pocket maximum.
- Drugs costs will be \$5/\$25/\$50 throughout the year and are not part of the deductible, co-insurance or out of pocket maximum.

Example of how a deductible, co-insurance and maximum out of pocket **PPO in-network plan** works for a single adult with no dependents.

- Employee pays the first \$750 for services in-network, excluding preventive which are covered at 100%.
- Employee will have a 10% co-insurance for the next \$7500 in services, or \$750, while the City pays \$6750.
- After paying \$1500, employee has reached their in-network out of pocket maximum, and with the exception of emergency room visits and the exception of separate out of network services, the City will pay 100% of additional in-network services.
- Drug costs will be \$5/\$25/\$50 co-pays throughout the year and are not part of the deductible, co-insurance or out of pocket maximum.

Example of how the deductible, co-insurance and maximum out of pocket **PPO out-of-network plan** works for a single adult with no dependents.

- If employee uses out-of-network provider for services, employee will have a separate \$1500 deductible associated with out of pocket providers, excluding preventive which are covered at 100%.
- Employee will have a 30% co-insurance for next \$5,000 in out-of-network services, or \$1500, while the City pays \$3,500.
- After paying \$3000 for out-of-network services, employee has reached their out-of-network out of pocket maximum and, with the exception of emergency room visits the City will pay 100% of additional out-of-network services.
- Drug costs will be a \$5/\$25/\$50 co pay throughout the year and are not part of the deductible, co-insurance or out of pocket maximum.

Definition of Terms

Monthly Employee Premium:

- Amount paid monthly by each member, or member contribution.
- The Employee Benefits Division (EBD) is proposing an employee premium of 12% of the total premium.
- With few exceptions all non-safety public employees throughout the state will be paying 12% of the total cost of their premium.

Total Monthly Premium:

- Amount charged for an insured health plan, or used as the equivalent monthly cost of a self-funded plan.

Deductible:

- amount paid before health plan pays first dollars
- The EBD is proposing a \$500 deductible for the HMO type plan and a \$750 deductible for the Basic Plan. This means all services – provider visits, hospital visits, emergency room – are paid by the member till they reach \$500, with exception of prescription drug costs and preventive services.

Co-insurance:

- Co-insurance is a specific percentage of the total cost of a service that is paid by member.
- The EBD is proposing a 10% co-insurance for the HMO style plan, which means that after an employee pays their \$500 deductible the employee would pay up to another \$500 out of pocket if their services reached a total of \$5000 (Employer would pay \$4500 / 90%). After the deductible and co-insurance the employee will reach their out of pocket maximum and the plan will pay at 100%.

Maximum out of Pocket:

- Beyond a certain contribution by the employee, services are covered at 100% by the employer or health insurance plan
- The City is proposing a \$1000 out of pocket maximum per person for the HMO style plan. After this, with exception of emergency room co-pay, medical costs would be paid at 100%.

Co-pays:

- Co-pays are specific dollar amounts that a member pays for a service.
- City employees would have a three-tier co-pay for drugs at \$5/\$25/\$50 in 2012 with both the HMO and the Basic Plan.

Steerage, In-Network and Out-of-Network:

- Steerage is used to direct employees to a network or providers or hospitals that have higher quality or lower cost, or are in a “network.”
- Steerage typically means that an employer will pay a higher percentage for “in-network” service (90%) and a lower percentage (70%) for “out of network” services.
- The City is proposing steerage with the Basic Plan type benefit.
- The HMO type plan provides no out-of-network benefits with the exception of emergency room services.

Basic Plan/HMO comparison

Preventive Care:

Deductible in network

Deductible out of network

Hospital in network
(In-patient/out-patient)

Hospital out of network
(In-patient/out-patient)

Co insurance in network
(Office visits, non-hospital)

Co insurance out of network
(Office visits, non-hospital)

Out of pocket maximum in network

Out of pocket maximum out of network

Emergency Room visits

Drug co-pays

Employee Premium

Premium Tier structure

HMO Proposed benefits

Covered at 100%

\$500 single, \$1000 family

No coverage

90% after deductible

No coverage

90% after deductible

No Coverage

\$1000 single, \$2000 family

No coverage

Member has \$150 co-pay after deductible, out of pocket maximum reached

\$5/\$25/\$50 co-pay

12% of projected cost monthly
(For General City)

Four tier

Basic Plan Proposed benefits

Covered at 100%

\$750 single, \$1500 family

\$1500 single, \$3000 family

90% after deductible

70% after deductible

90% after deductible

70% after deductible

\$1500 single, \$3000 family

\$3000 single, \$6000 family

\$150 after deductible and out of pocket maximum reached

\$5/\$25/\$50 co-pay

12% of projected cost monthly
(For General City)

Four tier