City Of Milwaukee

Benefits Team Recommendation Regarding 2012 Contracts for HMO, Self Insured Basic Medical Plan Administration, UR, Provider Network and PBM Services

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Table of Contents

Executive Summary 3

- What is the Recommendation of the Benefits Team? 3
- Who was on the Benefits Team? 3

How Did the Benefits Team Reach These Recommendations? 4

- HMO Selection Process 4
- Basic Health Plan Administration Selection Process 8
- Prescription Benefit Manager Selection Process 10

Appendices

- Appendix A – 2012 UHC vs. WEA TRUST HMO Rate Comparison
- Appendix B – 2012 UHC Renewal Calculation
- Appendix C – EPO Cost Comparison
- Appendix D – New PPO Basic Plan Cost Comparison
- Appendix E – Combined EPO/PPO Cost Comparison
- Appendix F – EPO/TPA Vendor Scoring

EXECUTIVE SUMMARY

What is the Recommendation of the Benefits Team?

HMO Plan

As a result of a request for proposal (RFP) process and evaluations, the Benefits Team recommends the following for the HMO plan effective 1/1/2012:

Change the funding of the HMO to a self insured EPO and enter into a three-year contract for 2012 through 2014 with UnitedHealthcare (UHC) for administration and provider network services. UHC is the incumbent HMO.

Basic Health Plan

As a result of a request for proposal (RFP) process and evaluations, the Benefits Team recommends the following for the Basic Health plan effective 1/1/2012:

Enter into a three-year contract for 2012 through 2014 with UnitedHealthcare (UHC) for administration and provider network services. Anthem is the incumbent administrator.

Prescription Benefit Management Services

As a result of a request for proposal (RFP) process and evaluations, the Benefits Team recommends the following for the Prescription Benefit Management Services (PBM) effective 1/1/2012:

Enter into a three-year contract for 2012 through 2014 with Medco for PBM and Medicare PDP services. Navitus is the incumbent PBM and PDP.

Who Was on the Benefits Team?

The City staff members on the Benefits Team were:

- **Michael Brady** – Director Employee Benefits, Department of Employee Relations
- **Troy Hamblin** – Labor Negotiator
- **James Michalski, CPA,** – Auditing Manager, Office of the Comptroller
- **Renee Joos** – Special Assistant, Budget Office
- **Matthew Hanchek, Milwaukee County Employee Benefits**

Assisting the City team were the following individuals:

- **Douglas Ley,** Senior Vice President, Willis
- **Clete Anderson**, Vice President, Willis

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 This Recommendation?

HMO Selection Process

Found below is a brief history of the City's HMO program.

Before 2003 Multiple HMOs offered (managed competition)

2003 Broad and narrow network HMOs only with Compcare (Anthem today) offered lower cost to the City than managed competition model

2007 Broad and narrow network HMOs only with Humana (narrow network much broader)

2008 Broad network only with UHC, only UHC and Humana quote, UHC increase 6% for all groups, Humana increase 19%

2009 UHC and City agree to 10% increase for all groups for not putting out to bid, 10% increase leaves rates still lower than Humana's 2008 rate proposal

2010 20.4% UHC rate renewal for all groups, UHC only carrier to quote

2011 UHC rebalanced the rates resulting in a 12% increase for actives, 52.6% increase for pre-Medicare retirees, 16.9% decrease for Medicare retirees and an overall 17.05% UHC rate renewal, UHC only carrier to quote

2012 UHC offers .5% rate reduction for 2012. Following finalist discussions, UHC revises its 2012 rate action to a 1.7% decrease. Only other carrier to quote an insured plan is WEA TRUST, but the proposal is deemed noncompliant.

The City goal for healthcare is to keep the cost as affordable as possible to the City while providing employees "choice." The City currently offers a broad network HMO through UHC and a Basic Plan administered by Anthem.

Because the number of HMOs available in Southeast Wisconsin is limited and the City has had contracts with them in the past, an abbreviated RFP focusing on the premium rates was e-mailed to the following companies.

- Anthem
- Humana
- UnitedHealthcare (UHC)
- WEA TRUST
- WPS

Respondents were asked to provide quotes for a lower cost, narrow network HMO as well as a higher cost, broad network HMO. None of the vendors had a lower cost narrow network. Respondents were asked to provide quotes assuming they would not be the only HMO offered. Respondents were instructed to assume prescription drugs would be carved out on a self insured basis.

The respondents were also asked to provide quotes for an Exclusive Provider Organization (EPO). The EPO would have benefits identical to the HMO, but the program would be self insured rather than insured as is the case with the HMO. EPO proposals were sought in the event that either the HMO proposal received would be deemed uncompetitively priced that or no vendor would provide an HMO proposal.

Proposals were received from Anthem, Humana, UHC, WEA TRUST and WPS. UHC provided a broad network HMO proposal and an EPO proposal. Anthem, Humana and WPS provided only EPO proposals. WEA TRUST provided an insured HMO proposal for the current HMO plan design but no EPO proposal.

Appendix A compares the UHC and WEA TRUST HMO proposals. The WEA TRUST rates for the current plan for active employees were roughly $2.1 million higher than UHC's rates for the same plan. Also, WEA TRUST is unable to offer a self insured EPO or PPO plan, so the combination of higher rates and inability to offer self insured plans eliminated WEA TRUST from further consideration.

UHC initially offered to renew the HMO contract with .5% overall decrease. As the only HMO finalist, UHC was asked whether its .5% proposal was its best and final offer. After consideration, UHC's best and final offer was a 1.7% rate decrease for 2012.

The team determined that its analysis must address whether the rates from UHC were reasonable and competitive, or whether one of the EPO proposals would provide a convincing expectation of savings versus the added risk of a self insured plan.

The team determined that the UHC potential savings of changing to a self insured EPO outweighed the added risk of the self insured funding assumed by the City. A summary of the analysis and conclusions follows.

Found in Appendix B is the UHC HMO rate renewal calculation illustrating the assumptions and methodology that went into UHC's overall rate renewal. Two fundamental components of the projection are the annual health care trend which is the expected increase in health care costs, and total retention charge which is the cost UHC charges to administer the HMO program.

Below is a comparison of the UHC renewal calculation with an EPO assuming 8.0% annual trend rate vs. UHC's 11.5%. The retention/expense charges for a self insured EPO were estimated at 7.4%, which includes expected expenses as well as a two percentage point load for the value of the insurance protection provided by the insured plan that would be lost.

UHC used an annual trend factor of 11.5%. No one knows what trend will be next year, but claims experience for the last year and a half would indicate that lower trend is plausible, so 8% was used for the EPO projection.

The other primary factor is the retention charge, the amount of each premium dollar UHC says it needs for non-claim related expenses, such as administration and premium taxes. UHC used 15.6% as the percent of each premium dollar it needs to cover its expenses.

The UHC calculation using these factors produced a Calculated Increase of 8.07%. UHC reduced it to a .5% overall decrease, the Final Renewal Action, without written explanation. UHC has previously indicated that this type reduction comes from reduced retention rather than reduced trend, suggesting that UHC believes that its trend factor is accurate and is accepting reduced administration fees.

	HMO	EPO	
Incurred Claims PMPM	$386.15	$386.15	
Annual Trend	11.5%	8.0%	
Months	21	21	
Total Trend	21.006%	14.417%	
Trended Claims	$467.27	$441.82	
Pooling Charge	$4.52	$4.52	
Expected Claims	$471.79	$446.34	
Retention	15.6%	7.4%	
Calculated Renewal	$559.01	$482.01	
Current Premium PMPM	$517.28	$517.28	
Calculated Renewal Action	8.07%	-6.82%	
Final Renewal Action	-1.70%	-6.82%	
			Difference
Annualized Total Gross Cos	$132,191,037	$125,308,302	($6,882,735)
Proposed Plan (all employees in proposed plan)			
Annualized Total Gross Cos	$112,935,209	$107,055,059	($5,880,150)

Note:
HMO premiums are guaranteed. EPO cost is a projection only.

Last year UHC's 2011 rate proposal followed this same pattern of a calculated rate versus a final rate, calculating a 24.79% rate increase then cutting the actual offer to 17.05%.

After finalist discussions with UHC, UHC's best and final offer for the 2012 HMO rates was a 1.7% decrease.

The analysis then looked at the projected cost of an EPO program. The EPO cost estimate incorporated two different assumptions from the HMO rate projection, a lower annual trend rate of 8% versus UHC's 11.5% as well as the lower retention charges of a self insured plan, 7.4% versus 15.6%.

The cost projection of an EPO program came to a 6.82% reduction. Based on current enrollment and the current plan design, the 2012 annual gross cost difference is roughly $6.9 million.

In prior years it was the conclusion of the selection team that UHC's insured HMO rates were reasonable and accepted a reasonable amount of risk. However, for 2012 the conclusion is that there is too great a spread between the insured rates and the projected cost of a self insured EPO plan to continue the insured HMO arrangement.

One should note two important issues regarding this switch to a self insured EPO program. First, the HMO rates are guaranteed while the EPO cost is an estimate. There is no guarantee on the EPO cost. It could cost even less than projected or perhaps even more than the HMO rates. On average over the long run a self insured program will cost less than an insured program, but there is no assurance that the change can be timed to coincide with good claims experience. Second, once the HMO plan is changed to self insured it is unlikely in the future that the City will find a carrier willing to quote and insured program, or at least at a competitive rate. So going back to an insured plan will probably no longer be an option.

The bidders were asked if they would offer a cap on their 2013 HMO rate increase. UHC declined.

Note that the provider network for UHC's HMO program is the same as for its EPO program.

Due to recent changes in Wisconsin law regarding collectively bargained health benefits, the City now has the ability to change health plan benefits without collective bargaining. Effective 1/1/2012, the HMO/EPO benefit design will be changed to require greater out-of-pocket expense, to employees, such as a $500 single, $1,000 family deductible not included today. UHC offered to reduce its HMO rates by 15.6% for the benefit plan change. That reduction was reasonable given the proposed plan design change.

Note that a benefit change would impact the relative costs of the vendors' proposals uniformly and was thus not a factor in the selection process but of course will reduce total plan cost.

Additional "tiers" were added to rates to accommodate the expected change in employee contributions. The change in tiers or any change in employee contributions (payroll deductions) would apply uniformly and thus were also not included in the analysis process.
The combination of these factors led the Team to conclude that switching to an EPO with UHC would likely cost the City less than the UHC HMO in 2012.

The last piece of the HMO analysis was to assess whether an EPO with Anthem, Humana or WPS would be more cost effective than the UHC EPO.

Found in Appendix C is an analysis of the respective administration fees and network discounts quoted for a self insured EPO program.

Annual EPO administration fees could run anywhere from about $2.3 million to $3.8 million depending on the vendor selected, the range of service chosen and the year. However, the biggest differential among the bidders is the magnitude of provider network discounts, not the fees. Based on expected medical 2012 claims of roughly $100 million, each percentage point of network discount differential is worth $1 million, increasing each year with trend.

Among the four EPO offers, UHC was projected to have the lowest overall cost if the City would choose to switch to an EPO type model in 2012. Thus, choosing a bidder other than UHC would not reduce the cost of the health care program.

In the year that a self insured EPO is adopted there would be a one-time cash flow "break" since run out claims, claims incurred in the prior year but paid in the subsequent year, will be covered by the HMO policy. This break would result in roughly a one month reduction in claims paid in the 2012. From an accounting perspective there would be no reduction because a reserve equal to any reduction would need to be set up recognizing that the City has accepted and must pay the run out should it ever want to return to an insured plan. Also note that while claims paid in the first year would be reduced, in the second year, assuming 8% trend, would increase roughly 20% by returning to a full twelve months of claims. This one time break is available whenever the plan goes self insured, but is best taken when other circumstances are more favorable.

Basic Health Plan Administration Selection Process

The Basic Health Plan is self insured and administered by Anthem, administers the plan and provides the provider network and the associated provider discounts. Responses to the RFP were received from the following organizations:

- Anthem
- Humana
- UnitedHealthcare (UHC)
- WPS

The current Basic Health Plan is a "base, major medical" plan, a design seldom seen anymore. Perhaps the greatest shortcoming of the benefit design is that it does not include any "steerage", higher benefit payments for network providers than non network providers. This lack a benefit differential led to problems in the past for the City to access many PPO networks because the contracts between the network and the providers require a meaningful benefit differential between in and out of network providers, benefit steerage the Basic Plan does not have. It is our understanding that Anthem was able to offer substantial network discounts despite no benefit steerage that the other networks could not.

Due to recent changes in Wisconsin law regarding collectively bargained benefits, the City now has the ability to change health plan benefits without collective bargaining. Effective 1/1/2012, the Basic Health Plan will be changed to a PPO design with higher benefit coinsurance paid for in network provider claims than out of network provider claims. Introducing benefit steerage allowed other networks to offer higher discounts that before, making them competitive with Anthem.

Just as with the EPO, the relative network discounts, rather than the administration fees, are the biggest determinant of the relative cost of each vendor's proposal. In Appendix D is a summary analysis of estimated cost of the new Basic Health Plan PPO for the respective bidders. Based on our analysis, UHC's proposal is projected to provide the lowest total PPO plan cost due to the highest average network discounts.

Appendix E illustrates the total cost of the respective vendors of consolidating the EPO and PPO plan administration and networks. UHC's total cost, projected as lowest on the EPO and PPO individually, was then lowest on a combined basis.

In addition to lower projected total cost, consolidating the administration of the PPO and EPO plans offers other advantages, including simplified administration, communication, enrollment, data reporting as well as stop loss insurance, should the City decide that this coverage is advisable. Having one health plan administrator, given the health plans will both be self insured, makes sense.

No two provider networks include all of the same providers. While inevitably some City employees will find that their current doctor is not in the UHC network, the UHC provider network is very broad, includes most of the providers in the Anthem network and also includes providers that are not in the Anthem network. In other words, employee access will be excellent and "disruption" of current providers small with the change to the UHC network. Employees who have a provider not in the UHC network would still have benefit coverage under the PPO plan design.

A scoring of the relative projected plan costs is found in Appendix F. The respective proposals were not scored for qualitative response by the team. However, UHC has demonstrated on the HMO plan that it can effectively administer health plans, plus UHC would have to have been scored 4 full points below all the other vendors for the composite score to be equal to the second most favorable proposal, a highly unlikely result.

Given all of these factors it is the recommendation of the selection team that the plan administration, utilization management and provider network of the new PPO Basic Plan should be awarded to UHC effective 1/1/2012. Thus UHC will be the administrator of both the PPO and EPO plans beginning in 2012, effective through 2014.

Prescription Benefit Manager Selection Process

Prescription drug programs are routinely placed with firms other than TPA. For the prescription drug programs, the City of Milwaukee is currently using a stand alone Pharmacy Benefit Management firm called Navitus. The City of Milwaukee sent the pharmacy RFP to the following PBMs. Here is a list of the proposals the team received:

Navitus (Incumbent)
Informed Rx
Envision Rx
Catalyst Rx
Medco
Procare Rx
RxEDO
Restat
Wisconsin Rx/CVS
Humana

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

"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 drugs, or through the PBM "skimming" of some of the discount negotiated with drug manufacturers. As part of our evaluation, the RFP required respondents to address these issues.

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 the projected years.

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 their discount as it would relate to the average wholesale price, called AWP. We received discounts for retail brand and retail generic drugs, and for mail order brand and mail order generic drugs.

The last step of the analysis relates to rebates. Based on how rebates are structured, some PBMs will share a portion of rebates. We asked all PBMs to indicate how much of the rebate that they would keep versus sharing with the City. We also asked all PBMs to indicate if rebates that they provided within their proposals were estimates or guarantees.

The relative saving of these programs are projected over a three-year period using the same cost and script trend factors for all proposals.

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

	Total Cost			
PBM	3 Year Total	3 Year Total Savings ($)	3 Year Total Savings (%)	Rank
Navitus - Current Pricing	$63,548,805	$0	0.0%	0
Medco	$59,188,607	$4,360,197	-6.9%	1
Restat	$59,200,968	$4,347,837	-6.8%	2
Humana	$59,832,560	$3,716,245	-5.8%	3
Navitus	$60,791,948	$2,756,857	-4.3%	4
ProCare Rx	$61,605,143	$1,943,662	-3.1%	5
Wisconsin Rx/CVS	$61,729,499	$1,819,306	-2.9%	6
Envision Rx	$62,071,445	$1,477,360	-2.3%	7
Informed Rx	$62,449,176	$1,099,629	-1.7%	8
Catalyst	$62,928,847	$619,958	-1.0%	9
RxEDO	$63,322,440	$226,365	-0.4%	10

Medco offered the lowest total ingredient, dispensing administration fee and three-year total cost, with Restat being second followed by Humana.

The team recognized that Navitus has done an excellent job for the City on its prescription drug program and thus was picked Navitus as a finalist, though only fourth in the financial analysis, along with Medco. Medco and Navitus as finalists were asked whether their proposals were final or if they would offer further reductions. Both bidders improved their terms to the City in their best and final offers. In this last step the savings differential between Medco and Navitus actually grew from the original proposals by roughly $460,000/year, and the final figures are shown above. Medco's financial proposal was clearly the best of all bidders.

The City was also interested in leveraging pricing and exploring advantages related to group purchasing. The City of Milwaukee, Milwaukee County, Milwaukee Metropolitan Sewage District and the Milwaukee Public Schools were all invited to participate in the pharmacy RFP. In theory, as the collective groups come together and leverage their size pricing should improve, but that is far from the truth when evaluating PBMs. Through our analysis, we concluded that pricing would not improve materially if all the entities participated within a group purchasing arrangement. Navitus is the only PBM that improved their pricing based on group purchasing, which was insignificant related to the total drug expenditures.

Below is a summary of the total results.

PBM	Additional Savings due to Group Purchasing
Medco	0%
Restat	0%
Humana	0%
Navitus	< 1%
ProCare Rx	0%
Wisconsin Rx/CVS	0%
Envision Rx	0%
Informed Rx	0%
Catalyst	0%
RxEDO	0%

The City offers an insured Medicare Part D PDP drug plan to its Medicare retirees through Navitus and Dean Health. Navitus would no longer offer an insured PDP beginning in 2012. The team reviewed the proposed self insured PDP discounts and fees from Navitus and Medco and determined that Medco's terms were the most favorable, plus placing all of the prescription drug administration with one vendor offers improved administration, communication reporting.

Based on both the best financial terms and the qualitative analysis, Medco was chosen as the PBM and Medicare PDP for the City's self insured prescription drug plans for three years effective 1/1/2012.

Appendices

- Appendix A – 2012 UHC vs. WEA TRUST HMO Rate Comparison
- Appendix B – 2012 UHC Renewal Calculation
- Appendix C – EPO Cost Comparison
- Appendix C – New PPO Basic Plan Cost Comparison
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HMO Rates and Annualized Premiums
UHC vs. WEA TRUST

2011 HMO Rates

	Current Plan	Current Plan with Rx	Enrollment	All Other	Fire/Police
PC1	$596.86	$746.08	1,663	1,167	496
PC3	$1,629.83	$2,037.29	3,768	2,015	1753
			5,431	3,182	2,249
PC1	$841.84	$1,052.30	546		
PC3	$2,298.14	$2,872.68	433		
PC4	$369.41	$461.76	204		
PC5	$738.79	$923.49	63		
PC6	$838.93	$1,048.66	150		
PC7	$1,183.07	$1,478.84	22		
PC8	$1,082.92	$1,353.65	3		
PC9	$2,353.36	$2,941.70	31		
PC10	$1,183.04	$1,478.80	3		
PPO					
PC4	$405.96	$507.45	213		
PC5	$811.92	$1,014.90	164		

Annualized	All Other	Fire/Police	Total
All in Current Plan	$90,128,086	$47,297,101	$137,425,187

2012 HMO Rates

	All Other	Fire/Police	HMO Current Plan	HMO Current Plan with Rx	HMO Optional Benefit Design	HMO Optional Benefit Design with Rx	EPO Optional Benefit Design with Rx
Active Rates							
(1) Single	1,167	496	$616.37	$770.46	$526.58	$658.23	$623.96
(2) Single with dependent/s	404	352	$924.55	$1,155.69	$789.88	$987.35	$935.94
(3) Two adults with no dependent/s	413	360	$1,232.74	$1,540.93	$1,053.17	$1,316.46	$1,247.92
(4) Family, two adults with dependent/s	1,198	1,041	$1,849.11	$2,311.38	$1,579.75	$1,974.69	$1,871.87
Retiree Rates							
(1) Single without Medicare	546		$827.53	$1,034.41	$706.98	$883.73	$837.72
(2) Two without Medicare	89		$2,259.07	$2,823.84	$1,930.00	$2,412.50	$2,286.89
(3) Family without Medicare	344		$2,259.07	$2,823.84	$1,930.00	$2,412.50	$2,286.89
(4) One with Medicare	204		$363.13	$453.91	$310.23	$387.79	$367.60
(5) Two with Medicare	63		$726.22	$907.78	$620.44	$775.55	$735.17
(6) One with Medicare & One without Medicare	150		$824.67	$1,030.84	$704.54	$880.68	$834.83
(7) One with Medicare, One without Medicare & Dependent children	22		$1,162.95	$1,453.69	$993.55	$1,241.94	$1,177.28
(8) Two with Medicare & Dependent children	3		$1,064.51	$1,330.64	$909.45	$1,136.81	$1,077.62
(9) One without Medicare & Dependent children	31		$2,313.35	$2,891.69	$1,976.37	$2,470.46	$2,341.83
(10) One with Medicare & Dependent children	3		$1,162.95	$1,453.69	$993.55	$1,241.94	$1,177.28
PPO							
PC4	232		$401.06	$501.33	$342.64	$428.30	$406.00
PC5	156		$802.13	$1,002.66	$685.29	$856.61	$812.01

Annualized	All Other	Fire/Police	Total
All in Current Plan	$87,193,048	$44,997,989	$132,191,037
All Other and Retirees in Optional Plan, Fire/Police in Current Plan	$74,491,923	$44,997,989	$119,489,912
Difference	($12,701,125)	$0	($12,701,125)
	-14.6%	0.0%	-9.6%

Annualized	All Other	Fire/Police	Total
All in Current Plan	$87,193,048	$44,997,989	$132,191,037
All in Optional Plan	$74,491,923	$38,443,286	$112,935,209
Difference	($12,701,125)	($6,554,703)	($19,255,828)
	-14.6%	-14.6%	-14.6%

WEA Trust

Active Rates	Current Plan	Current Plan with Rx
(1) Single	$653.42	$807.51
(2) Single with dependent/s	$980.12	$1,211.26
(3) Two adults with no dependent/s	$1,306.84	$1,615.03
(4) Family, two adults with dependent/s	$1,960.26	$2,422.53

WEA Active Employees Only Annualized	$60,011,019
UCH Active Employees Only Annualized	$57,257,555
Difference	$2,753,464

Appendix B

UnitedHealthcare
Financial Exhibits - Medical

Customer Name:	City of Milwaukee
Medical Policy:	712481
Renewal Date:	January 1, 2012

Renewal rates effective: 1/1/12 to 12/31/12

	Historical Information	Current Period	Prior Period	Blended
	Beginning of Experience Period	4/1/2010	4/1/2009	
	End of Experience Period	3/31/2011	3/31/2010	
	Medical Incurred Claims	$86,169,599	$82,072,500	
	Rx Incurred Claims	$0	$0	
	Member Months	223,150	222,854	
	Experience Rating PMPM			
A	Incurred Medical Claims PMPM	$386.15	$368.28	
B	Pooled Claims Over $500,000	$0.00	$1.67	
C	Adjusted Medical Claims (A - B)	$386.15	$366.61	
D	Incurred Rx Claims PMPM	$0.00	$0.00	
E	Total Incurred Claims (C + D)	$386.15	$366.61	
F	Trend Factor (Current 21 mos, Prior 33 mos)	1.21006	1.349	
G	Plan Change Adjustment	1.000	1.000	
H	Trended/Adjusted Claims (E * F * G)	$467.27	$494.69	
I	Claim Period Weighting	100%	0%	$467.27
J	Adjustment for Membership Shift			1.000
K	Pooling charge for $500,000			$4.52
L	Expected claims (I * J + K)			$471.79
	Retention:			
M	Administration			13.8%
N	Commission			0.0%
O	Premium tax			1.8%
P	Other adjustment			0.0%
Q	Total retention (M + N + O + P)			15.6%
R	**Experience Premium PMPM [L / (1 - Q)]**			**$559.01**
	Manual Rating PMPM			
S	Manual Premium PMPM (unadjusted)			$521.65
T	Age/Sex Adjustment			1.046
U	Other Adjustment			1.000
V	**Manual Premium PMPM (S * T * U)**			**$545.64**

	Renewal Action	Calculated Premium		Credibility Factor	
W	Experience Rating	$559.01	x	100.0%	$559.01
X	Manual Rating	$545.64	x	0.0%	$0.00
Y	**Initial Calculated Renewal Premium PMPM (W + X)**				$559.01
Z	Other Adjustment				1.000
AA	**Final Calculated Renewal Premium PMPM (Y x Z)**				$559.01
AB	Current Premium PMPM				$517.28
AC	Calculated Renewal Action (AA / AB) - 1				8.07%
AD	Suggested Renewal Action (current plan)				-0.50%
AE	Prospective Plan Change				1.000
AF	**Final Renewal Action ((1 + AD) * AE) - 1**				-0.50%

Current Subscribers	7,166	Final Renewal Premium PMPM	$514.70
Current Members	18,020	Final Renewal Monthly Premium	$9,274,828
		Final Renewal Annual Premium	$111,297,933

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Final renewal monthly/annual premiums are calculated using current enrollment

Rates and benefits are subject to regulatory and home office approval

5/26/2011 15:34

EPO Cost Comparison

		UHC		WPS	Humana HPN	Anthem
Claims (All active employee and retirees in new plan)						
2012						
	Inpatient Hospital	$29,739,895	30%	$34,800,895	$31,826,906	$30,783,400
	Outpatient Hospital	$29,739,895	30%	$42,011,515	$37,065,301	$34,686,110
	Physician	$39,653,194	40%	$52,791,777	$43,294,006	$40,919,563
	Total	$99,132,985	100%	$129,604,187	$112,186,213	$106,389,073
2013						
	Inpatient Hospital	$32,713,885		$38,280,985	$35,009,596	$33,861,741
	Outpatient Hospital	$32,713,885		$46,212,667	$40,771,831	$38,154,721
	Physician	$43,618,513		$58,070,955	$47,623,407	$45,011,520
	Total	$109,046,283		$142,564,606	$123,404,834	$117,027,981
2014						
	Inpatient Hospital	$35,985,273		$42,109,083	$38,510,556	$37,247,915
	Outpatient Hospital	$35,985,273		$50,833,934	$44,849,014	$41,970,193
	Physician	$47,980,365		$63,878,050	$52,385,747	$49,512,672
	Total	$119,950,911		$156,821,067	$135,745,317	$128,730,779
Totals						
	Inpatient Hospital	$98,439,054		$115,190,963	$105,347,057	$101,893,056
	Outpatient Hospital	$98,439,054		$139,058,116	$122,686,147	$114,811,023
	Physician	$131,252,072		$174,740,782	$143,303,160	$135,443,754
	Total	$328,130,179		$428,989,861	$371,336,364	$352,147,833

Administration Fee

	UHC	WPS	Humana HPN		Anthem Non Medicare	Anthem Medicare
Administration Fee						
2012	$35.63	$21.01	$28.02		$41.19	$28.14
2013	$38.48	$21.54	$28.88		$42.84	$29.27
2014	$40.40	$22.07	$29.77	*estimated	$44.98	$30.73
UM						
2012	$0.00	$1.60	$3.65		$0.00	
2013	$0.00	$1.65	$3.75		$0.00	
2014	$0.00	$1.68	$3.85	*estimated	$0.00	
DM						
2012	$0.00	$3.85	$5.50		$0.00	
2013	$0.00	$3.85	$5.66		$0.00	
2014	$0.00	$3.85	$5.82	*estimated	$0.00	
Annualized						
2012	$3,105,368	$2,306,148	$3,239,589		$3,461,230	
2013	$3,353,763	$2,356,698	$3,337,203		$3,599,909	
2014	$3,521,102	$2,405,506	$3,437,433		$3,779,715	
Total	$9,980,234	$7,068,352	$10,014,224		$10,840,854	
Combined Claims and Administration						
2012	$102,238,353	$131,910,335	$115,425,801		$109,850,304	
2013	$112,400,046	$144,921,304	$126,742,037		$120,627,889	
2014	$123,472,014	$159,226,572	$139,182,750		$132,510,494	
Total	$338,110,412	$436,058,212	$381,350,589		$362,988,687	

Cash Flow Savings in 2012 of an EPO

All of the claim figures above are 'mature" amounts. If the City were to switch to an EPO it would receive a cash flow "break" in the first year since 2010 run out claims, claims incurred in 2010 but paid in 2012, would be covered by the UHC HMO plan. That break would be worth roughly $10 million. Note that cash claims for 2013 would grow by the $10 million plus trend, so large paid claim increase would occur in 2013. On an accrual basis there is no reduction for the change because the $10 million becomes an liability on the City's balance sheet.

New PPO Basic Plan Cost Comparison

	UHC		WPS	Humana HPN		Anthem	
Claims (All active employee and retirees in new plan)							
2012							
Inpatient Hospital	$13,416,029	30%	$15,699,108	$14,357,505		$13,886,767	
Outpatient Hospital	$11,906,524	30%	$16,819,532	$14,839,289		$13,886,767	
Physician	$17,942,670	40%	$23,887,746	$19,590,101		$18,515,689	
Total	$43,265,223	100%	$56,406,386	$48,786,895		$46,289,223	
2013							
Inpatient Hospital	$14,757,632		$17,269,019	$15,793,255		$15,275,444	
Outpatient Hospital	$13,097,176		$18,501,485	$16,323,218		$15,275,444	
Physician	$19,736,937		$26,276,521	$21,549,111		$20,367,258	
Total	$47,591,746		$62,047,025	$53,665,584		$50,918,146	
2014							
Inpatient Hospital	$16,233,395		$18,995,920	$17,372,581		$16,802,988	
Outpatient Hospital	$14,406,894		$20,351,634	$17,955,540		$16,802,988	
Physician	$21,710,631		$28,904,173	$23,704,022		$22,403,984	
Total	$52,350,920		$68,251,727	$59,032,143		$56,009,960	
Totals							
Inpatient Hospital	$44,407,057		$51,964,047	$47,523,341		$45,965,199	
Outpatient Hospital	$39,410,595		$55,672,651	$49,118,046		$45,965,199	
Physician	$59,390,238		$79,068,440	$64,843,234		$61,286,932	
Total	$143,207,889		$186,705,138	$161,484,621		$153,217,330	
Administration Fee							
	UHC		**WPS**	**Humana** HPN		**Anthem** Non Medicare	Medicare
Administration Fee							
2012	$35.63		$21.01	$28.02		$41.61	$28.42
2013	$38.48		$21.54	$28.88		$43.27	$29.56
2014	$40.40		$22.07	$29.77	*estimated	$45.43	$31.03
UM							
2012	$0.00		$1.60	$3.65		$0.00	
2013	$0.00		$1.65	$3.75		$0.00	
2014	$0.00		$1.68	$3.85	*estimated	$0.00	
DM							
2012	$0.00		$3.85	$5.50		$0.00	
2013	$0.00		$3.85	$5.66		$0.00	
2014	$0.00		$3.85	$5.82	*estimated	$0.00	
Annualized							
2012	$1,313,464		$975,421	$1,370,235		$1,289,843	
2013	$1,418,527		$996,803	$1,411,523		$1,341,415	
2014	$1,489,306		$1,017,446	$1,453,916		$1,408,274	
Total	$4,221,297		$2,989,670	$4,235,674		$4,039,533	
Combined Claims and Administration							
2012	$44,578,688		$57,381,807	$50,157,130		$47,579,067	
2013	$49,010,272		$63,043,827	$55,077,107		$52,259,561	
2014	$53,840,226		$69,269,173	$60,486,059		$57,418,234	
Total	$147,429,186		$189,694,808	$165,720,295		$157,256,862	

Combined EPO/PPO Cost Comparison

		UHC		WPS	Humana HPN	Anthem
Claims (All active employee and retirees in new plans)						
2012						
	Inpatient Hospital	$43,155,925	30%	$50,500,003	$46,184,410	$44,670,168
	Outpatient Hospital	$41,646,419	30%	$54,104,120	$51,904,590	$48,572,877
	Physician	$57,595,864	40%	$76,679,523	$62,884,107	$59,435,253
	Total	$142,398,208	100%	$181,283,646	$160,973,107	$152,678,297
2013						
	Inpatient Hospital	$47,471,517		$55,550,003	$50,802,852	$49,137,184
	Outpatient Hospital	$45,811,061		$59,514,532	$57,095,049	$53,430,164
	Physician	$63,355,450		$84,347,476	$69,172,517	$65,378,778
	Total	$156,638,029		$199,412,011	$177,070,418	$167,946,126
2014						
	Inpatient Hospital	$52,218,669		$61,105,004	$55,883,137	$54,050,903
	Outpatient Hospital	$50,392,168		$65,465,985	$62,804,554	$58,773,181
	Physician	$69,690,995		$92,782,223	$76,089,769	$71,916,656
	Total	$172,301,831		$219,353,212	$194,777,460	$184,740,739
Totals						
	Inpatient Hospital	$142,846,110		$167,155,010	$152,870,399	$147,858,254
	Outpatient Hospital	$137,849,648		$179,084,637	$171,804,193	$160,776,222
	Physician	$190,642,309		$253,809,222	$208,146,394	$196,730,686
	Total	$471,338,068		$600,048,869	$532,820,986	$505,365,162

Administration Fee

	UHC	WPS	Humana HPN		Anthem Non Medicare	Anthem Medicare
Administration Fee						
2012	$35.63	$21.01	$28.02		$41.61	$28.42
2013	$38.48	$21.54	$28.88		$43.27	$29.56
2014	$40.40	$22.07	$29.77	*estimated	$45.43	$31.03
UM						
2012	$0.00	$1.60	$3.65		$0.00	
2013	$0.00	$1.65	$3.75		$0.00	
2014	$0.00	$1.68	$3.85	*estimated	$0.00	
DM						
2012	$0.00	$3.85	$5.50		$0.00	
2013	$0.00	$3.85	$5.66		$0.00	
2014	$0.00	$3.85	$5.82	*estimated	$0.00	
Annualized						
2012	$4,418,833	$3,281,569	$4,609,823		$4,786,298	
2013	$4,772,290	$3,353,501	$4,748,726		$4,977,420	
2014	$5,010,408	$3,422,952	$4,891,349		$5,225,729	
Total	$14,201,530	$10,058,022	$14,249,898		$14,989,448	
Combined Claims and Administration						
2012	$146,817,040	$184,565,215	$165,582,931		$157,464,595	
2013	$161,410,318	$202,765,511	$181,819,144		$172,923,547	
2014	$177,312,239	$222,776,164	$199,668,809		$189,966,469	
Total	$485,539,598	$610,106,891	$547,070,884		$520,354,610	

COMPOSITE SCORES

QUANTITATIVE	Anthem	Humama	UHC	WPS	Weight
TOTAL	6.53	6.21	7.00	5.57	100.0%

QUALITATIVE	Anthem	Humama	UHC	WPS	Weight
COMPOSITE QUALITATIVE SCORE	6.00	6.00	6.00	6.00	100.0%

Note:
Not actual qualitative scores. UHC could get a score 4.0 points lower than others and still have highest composite score.

TOTAL COMPOSITE SCORE

SUMMARY RESULTS	Anthem	Humama	UHC	WPS	Weight
QUALITATIVE	6.00	6.00	6.00	6.00	10.0%
QUANTITATIVE	6.53	6.21	7.00	5.57	90.0%
TOTAL COMPOSITE SCORE	**6.48**	**6.19**	**6.90**	**5.61**	**100.0%**

Brady, Michael

From: Henry, Sheryl [henry_sh@willis.com]
Sent: Thursday, July 14, 2011 8:40 AM
To: Brady, Michael
Cc: Anderson, Clete
Subject: RE: City of Milwaukee
Attachments: Rates 2012.pdf

Attached is the 2012 rate projection calculation for the Basic Plan.

The first block on page 2 shows that the overall increase with no changes to the benefits is -14.2%. This is due to favorable experience, a 30% decrease in the Rx costs expected under MEDCO and reduced administrative fees.

The second block shows rates under a 4 tier rate structure for the actives with no plan changes. The single rate decreases by 17.6% but the family rate will increase by 9.7%. Rates were calculated under the 4 tier structure so that it is revenue neutral.

The third block shows rates under the PPO plan design which resulted in a decrease of 1.7%.

Sheryl

Sheryl Henry F.S.A., M.A.A.A
National Actuarial Practice
Vice President and Actuary
414-203-5234

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City of Milwaukee
2012 Rate Projection

	Actives	Retirees			Total
2011 Projected Cost per Enrollee		Non-Medicare	Medicare	Total Retiree	
Paid Claims-Medical 7/1/10-6/30/11	$8,074,577			$15,686,821	$23,761,399
Paid Claims-Rx 7/1/10-6/30/11	$1,860,404			$5,606,661	$7,467,065
Total Medical & Rx Paid Claims 7/1/10-6/30/11	$9,934,981			$21,293,482	$31,228,464
Adjust Rx 30% Savings Expected	$9,376,860			$19,611,484	$28,988,344
Average Enrollment 7/1/10-6/30/11	690	607	1,841	2,448	3,138
Current Enrollment 6/30/11	645	684	1,769	2,453	3,098
Trend-Medical	10.0%				
Trend-Rx	12.0%				
Weighted Trend	10.4%				
Trend Months at	18				
Trend Factor	1.160				
Medical/Rx Cost Trend to 2012	$10,873,282			$22,741,215	$33,614,498
Adjust for Enrollment	0.935			1.002	
Adjusted Medical/Rx Cost Trend to 2012	$10,162,928			$22,790,767	$32,953,695
DeanRx Projected Claim Cost pmpm	$0.00	$0.00	$87.49		$1,857,257
Administrative Expense					
Basic Plan (per contract)	$35.63	$35.63	$35.63		$1,324,581
MEDCO ($1.72 pmpm)	$3.64	$3.08	$2.40		$104,449
Wrap Plan ($1.72 pmpm)					
Total Administrative Cost 2012 per Enrollee	$39.27	$38.71	$38.03		$1,429,030
2012 Non-Claim Cost	$303,913	$317,762	$807,355	$1,125,117	
2012 Projected Cost	$10,466,840			$25,773,142	**$36,239,982**

Income at Current Rates

		2011 Rates				
		Base	Major Medical	Total	6/30/11 Enrollment	
Active	Single	$761.04	$218.74	$979.77	246	$2,892,289
	Family	$1,715.16	$492.95	$2,208.11	399	$10,572,434
						$13,464,723
	Plan					
Retired	1	$1,090.59	$309.50	$1,400.09	223	$3,745,085
Non-Medicare	3	$1,936.16	$549.46	$2,485.62	429	$12,809,510
	9	$1,589.38	$451.03	$2,040.41	30	$726,047
Retired	4	$192.68	$179.72	$372.39	1,104	$4,934,865
Medicare	5	$370.31	$334.56	$704.87	582	$4,921,200
	6	$659.81	$954.43	$1,614.23	69	$1,327,057
	7	$764.28	$1,127.70	$1,891.97	10	$232,147
	8	$476.26	$510.28	$986.54	4	$48,420
	10	$396.59	$517.94	$914.53	2	$22,443
						$28,766,773
2012 Income at Current Rates and Enrollment						**$42,231,496**

Increase Needed-Overall	-14.2%
Increase Needed-Actives	-22.3%
Increase Needed-Retirees	-10.4%

City of Milwaukee
2012 Rate Projection

Recommended 2012 Rates

		Base	Major Medical	Total	Change	Increase
Active	Single	$653.07	$187.70	$840.77	-$139.00	-14.2%
	Family	$1,471.83	$423.01	$1,894.84	-$313.27	-14.2%
	Plan					
Retired	1	$935.87	$265.59	$1,201.46	-$198.64	-14.2%
Non-Medicare	3	$1,661.47	$471.50	$2,132.98	-$352.64	-14.2%
	9	$1,363.89	$387.04	$1,750.93	-$289.48	-14.2%
Retired	4	$165.34	$154.22	$319.56	-$52.83	-14.2%
Medicare	5	$317.78	$287.09	$604.87	-$100.00	-14.2%
	6	$566.20	$819.02	$1,385.22	-$229.02	-14.2%
	7	$655.85	$967.71	$1,623.55	-$268.42	-14.2%
	8	$408.70	$437.88	$846.58	-$139.96	-14.2%
	10	$340.33	$444.46	$784.78	-$129.75	-14.2%

Recommended 2012 Rates with 4 Tier Active Structure

		Base	Major Medical	Total	Change	Increase
Active	Single	$627.14	$180.25	$807.39	-$172.38	-17.6%
	Single w/deps	$940.71	$270.38	$1,211.10		
	Two adults/no deps	$1,254.29	$360.51	$1,614.80		
	Family	$1,881.43	$540.76	$2,422.19	$214.08	9.7%
	Plan					
Retired	1	$935.87	$265.59	$1,201.46	-$198.64	-14.2%
Non-Medicare	3	$1,661.47	$471.50	$2,132.98	$2,132.98	-14.2%
	9	$1,363.89	$387.04	$1,750.93	$1,750.93	-14.2%
Retired	4	$165.34	$154.22	$319.56	-$1,813.42	-14.2%
Medicare	5	$317.78	$287.09	$604.87	-$1,146.06	-14.2%
	6	$566.20	$819.02	$1,385.22	$1,385.22	-14.2%
	7	$655.85	$967.71	$1,623.55	$1,623.55	-14.2%
	8	$408.70	$437.88	$846.58	$527.02	-14.2%
	10	$340.33	$444.46	$784.78	$179.91	-14.2%

Recommended 2012 Rates with 4 Tier Active Structure and Plan Change

		Base	Major Medical	Total	Change	Increase
Active	Single	$627.14	$180.25	$793.67	-$186.11	-19.0%
	Single w/deps	$940.71	$270.38	$1,190.51		
	Two adults/no deps	$1,254.29	$360.51	$1,587.35		
	Family	$1,881.43	$540.76	$2,381.01	$172.90	7.8%
	Plan					
Retired	1	$935.87	$265.59	$1,181.03	-$219.06	-15.6%
Non-Medicare	3	$1,661.47	$471.50	$2,096.72	-$388.90	-15.6%
	9	$1,363.89	$387.04	$1,721.17	-$319.25	-15.6%
Retired	4	$165.34	$154.22	$314.13	-$58.27	-15.6%
Medicare	5	$317.78	$287.09	$594.59	-$110.29	-15.6%
	6	$566.20	$819.02	$1,361.67	-$252.56	-15.6%
	7	$655.85	$967.71	$1,595.95	-$296.02	-15.6%
	8	$408.70	$437.88	$832.18	-$154.36	-15.6%
	10	$340.33	$444.46	$771.44	-$143.09	-15.6%