Background

Milwaukee County Health Care Consortium (MCHCC) is comprised of the following four public Milwaukee County employers.

- Milwaukee County (MC)
- Milwaukee County Transit System (MCTS)
- City of Milwaukee (COM)
- Milwaukee Public School (MPS)

Each of these organizations uses UnitedHealth Care (UHC) to process claims for their health plans and provider network. The contracts with UHC all expire on December 31, 2014. The group wants to assess the market to determine whether a major competitor of UHC; Aetna, Anthem, CIGNA, or Humana, can offer network discounts that would deliver greater savings to the group or the employers individually.

To assess whether there was significant gain to be realized in conducting and RFP and changing administrators, the group asked Willis to develop an RFI to gather information focused on the following four areas:

1. Network access and disruption,
2. broad network discounts,
3. ability to offer a narrow network and the improvement in discounts which would be realized through a narrow versus the broad network, and
4. information regarding the carriers evolving strategy and philosophy towards network contracting, discounts, quality and patient outcome.

The RFI was sent to the carriers with de-identified claims data (no patient data was provided) from 2013 to allow the carriers to reprice the charges based on their network discounts and access as of April 1, 2014.

Findings

Network discounts, plus the level of in network utilization by plan participants, are the two primary drivers behind the price component of an employer's health plan. The RFI was intended to answer the question whether the incumbent UnitedHealth Care network still provides the deepest discounts and best network usage available to the MCHCC members.

Responses were received from Aetna, Anthem, Humana and UHC. CIGNA declined to participate stating their network discounts were not competitive with UHC's. Humana provided a response but requested that Willis sign a non-disclosure agreement. Due to public record requirements, Willis cannot sign the agreement and hence their response is not included in this analysis.

The best network from a price standpoint offers the deepest discounts as well as the best overlap with patient/provider usage. The table on the following page summarizes the discount percentage and disruption percentage figures provided by Aetna Anthem, and UHC, respectively. The percentage figures are from the respondents. The annual figures were developed by Willis based on the estimated annual health plan charges for the respective plans.

Note that these are “allowed charge” estimates, not paid claims, because claims cannot be “repaid” with the revised charges. Thus the difference across networks is not just the employer portion but the combined employer and employee cost differential.

The table below summarizes the results of the responses to the RFI.

	City			County and MTS			MPS		
Category	UHC	Anthem	Aetna	UHC	Anthem	Aetna	UHC	Anthem	Aetna
IP	42.9%	42.2%	51.1%	43.8%	43.4%	51.1%	43.0%	42.2%	51.0%
OP	54.6%	50.2%	39.3%	56.4%	50.1%	39.0%	56.6%	50.0%	27.7%
Prof	51.8%	51.3%	44.5%	51.7%	50.4%	44.9%	52.1%	51.3%	44.5%
Total	52.0%	49.2%	43.7%	51.6%	48.5%	44.72%	52.5%	48.8%	38.7%
Annual Charges	$154,000,000	$154,000,000	$154,000,000	$215,000,000	$215,000,000	$215,000,000	$219,000,000	$219,000,000	$219,000,000
Discount % Difference		2.8%	8.3%		3.1%	6.9%		3.7%	13.8%
Annual Difference		$4,300,000	$12,700,000		$6,700,000	$14,800,000		$8,100,000	$30,300,000
Network Match Percentage	98.4%	95%	Not provided	98.3%	95.5%	Not provided	99.4%	95%	Not provided
Network Match Difference		3.4%			2.8%			4.4%	
Annual Difference		$2,700,000			$3,100,000			$5,100,000	
Estimated Total Annual Charge Difference		$7,000,000	$12,700,000		$9,800,000	$14,800,000		$13,200,000	$30,300,000

The conclusion, UHC offers both the deepest discounts and highest in network utilization (least disruption), and thus the lowest price structure. There is no financial reason for any of the MCHCC employers to switch from UHC or bear the expense and time associated with a formal RFP for claims administration and network services. Based on the RFI, a switch would actually increase the cost of the health plans.

The reader may note that the analysis excludes carrier administration fees. While those fees will differ across the carriers, the magnitude of those differences is small in comparison to the discount and disruption impact and thus was not included for sake of expediting the RFI process.

The discount percentage estimates the price differential in network. The disruption measures the magnitude of charges that are not discounted. UHC provides the lowest cost network because its discounts are deepest. UHC’s network overlap with patient/provider usage is highest, resulting in the lowest amount of undiscounted charges.

Note that we made no adjustment for Aetna network disruption because Aetna did not provide these figures, and its network would be no better than UHC. Thus any network disruption component would make Aetna’s already uncompetitive numbers only more so.

The RFI also requested information on narrow networks. In many markets carriers have created narrow networks that are based on providers that have demonstrated the ability to deliver quality health care at a lower cost. In some instances, they will also offer deeper discounts.

Both Aetna and Anthem provided “quotes” on narrow networks. Each of these was based primarily on the Aurora Health System and select additional providers such as Children’s Hospital. However, the potential savings that the MCHCC employers might realize via a narrow network are not firm since the final terms for the narrow networks are not yet finalized.

UHC has identified efficient providers but will not, at this time, offer them as a standalone narrow network. At the current time certain specialties would be missing. They did suggest that offering benefit differential that favored efficient providers would reduce cost. The evaluation of whether this makes sense for any MCHCC members will be a separate project outside of the scope of this analysis.

Narrow networks will be an area of study for the MCHHC in the future but are not a viable alternative for 2015 at this time.

A review of the network contracting strategies did not suggest material differences that would create a significant advantage to one vendor in the future.

Additional Concessions by UHC

There is nothing to be gained by engaging in a formal RFP for claims administration and network services. However, UHC had a great deal to lose in terms of market share and clout. Hence they very interested and concerned about the RFI process..

The MCHCC used its collective purchasing power and the interest several members had in pursuing a narrow network option offered via Anthem to obtain material concessions from UHC. The employers met to discuss certain concessions they would like to see as part of a three-year agreement and directed Willis to approach UHC.

Willis requested the following:

- That UHC will develop a narrow network option for the MCHCC employers for 2016. If UHC is unwilling or unable to develop such a narrow network, the employers will have the option to offer a narrow network alternative with to impact to the UCH agreement.
- No increase in administrative fees in 2015 and a 2% increase in 2016 and 2% in 2017 and 2% in 2018.
- Preserve current contract form and rights
- Agreement to exchange data with any PBM that the MCHCC employers may elect to contract with over the term of the agreement with no change in administrative fees or contract terms
- The ability of any MCHCC employer to offer a Medicare Advantage Program though any carrier over the term of the agreement with no change in administrative fees or contract terms.

Willis notified UHC that, with these concessions, each of the organizations planned to go to their Boards with a recommendation to sign a three year agreement with UHC within the next 60 days.

UHC came back with the following counter offer: The language of which is reproduced below.

1. UnitedHealthcare of Wisconsin will work to develop a narrow network option, and if we are unable to offer such an option, the employers will have the option to offer a narrow network to their employees in 2016 with no impact to the UnitedHealthcare Agreement, unless UnitedHealthcare membership is reduced by 20% or more. UnitedHealthcare retains the right to adjust rates if enrollment varies by 20%.
2. UnitedHealthcare agrees to implement no increase to administrative fees in 2015; 2% increase to administrative fees for 2016; 2% increase to administrative fees for 2017, with option to renew 2018.

3. UnitedHealthcare agrees to preserve current ASA including Value Based Contracting with our providers, unless change is required by State or Federal mandate.

4. UnitedHealthcare will continue to exchange data with Express Scripts or its replacement with one of the following PBMs at no additional cost:
   - OptumRx
   - Caremark / Catamaran
   - Pharmacare / Caremark
   - Pharmavail
   - Prime Therapeutics
   - Restat
   - Walgreens

   Any other vendor connection will require a set-up fee ranging from $50,000 to $160,000 per vendor for each employer.
   Please note there are fees to integrate pharmacy for purposes of tracking a single Out of Pocket Maximum for medical and pharmacy. Up to $15,000 to set up, and $7500 per year to maintain the connectivity.

5. UnitedHealthcare agrees to maintain administrative fees should any Consortium employer offer a Medicare Advantage plan to Retirees with Medicare through any carrier.

This offer is contingent upon each entity of the Consortium (Milwaukee Public Schools, City of Milwaukee, Milwaukee County, Milwaukee Transport Services) renewing with UnitedHealthcare on 1/1/2015 for a three year period. Stop Loss is considered outside of this offer and will continue to be evaluated annually for MPS and Milwaukee County with MTS.

The initial renewal terms that UHC provided to MC requested a 3% increase in the fees. Willis sees market increases in administrative fees in the range of 3% to 5%. If we assume a 3% increase each year, the UHC offer will save the MCHCC employers over a million dollars over the three period.

City of Milwaukee	$300,000
Milwaukee County and MCTS	$425,000
MPS	$350,000
Grand total	$1,075,000

There is a slight concern over the narrow network contingency which allow fee revisions if UHC enrollment changes over 20% if a competitors narrow network is offered. Willis believes this will not be a material issue and can be negotiated with UHC and any changes factored into the analysis of the benefits of a narrow network. Further UHC has agreed to explore creating a narrow network.

There were also concerns about the limited list of PBMs UHC will work with without MCHCC employers incurring the additional fees noted in the offer. There were three additional PBMs that Willis requested be included on the list of PBMs that would not incur additional fees. These PBMs and the reason for them to be included on the list were as follows:

- Navitus – the City used Navitus as their PBM for several years successfully and Willis believes they may be a credible contender for the upcoming PBM RFP that will be issued for the MCHCC employers.

- EnvisionRx - they provide a transparent model similar to Navitus and have recently won the business for several large public employers
- MedImpact - this PBM is especially knowledgeable in what is known as a Group Purchasing Organization (GPO) opportunity which may offer significant benefit to the employers and will be investigated as part of the upcoming RPF process.

UCH agreed to include Navitus on the list. The group did not perceive the exclusion of EnvisionRX and MedImpact to be a deal breaker. If one of these two PBMs is competitive Willis will obtain firm interface rates from UHC and factor that into the analysis.

Recommendation

Willis believes the UHC offer is very competitive and given the broad network advantage UHC has, that the employers consider entering into the proposed three year agreement. This is supported by the following:

- The closest competitor network would have resulted in over $32.9 million dollars of addition cost for the MCHCC employers.
- The aggressive administrative fee offer will save over $1.0 for the MCHCC over the next three years.
- A narrow network will be developed by UHC and if not the employers are free to peruse different narrow network opportunities.
- All current contract rights are preserved.
- The employers are fee to offer or expand enrollment in Medicare Advantage programs with no impact on the current administrative fees.
- The MCHHCC employers have a wide range of PMS that UHC will work with where there will be no additional cost.

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