

City Of Milwaukee

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Benefits Team Recommendations Regarding 2008  
Contracts for HMOs

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## **Table of Contents**

Executive Summary.....	3
• What are the Recommendations 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

## **Appendices**

### Appendix

- 2008 HMO Quotes Comparison
- 2008 HMO Proposal Scoring Summary
- 2008 HMO Rate Quote Comparison
- Impact of Carving Out Rx Benefits from HMO Coverage

## **EXECUTIVE SUMMARY**

### ***What are the Recommendations of the Benefits Team?***

#### **HMO Plans**

As a result of a request for proposal (RFP) process and evaluations, the Benefits Team recommends the following for the HMO plans:

Enter into a one-year contract in 2008 with UnitedHealthcare (UHC). UHC is not the incumbent HMO. This UHC proposal offers the lowest cost to the City and employees and retirees, as well as broad network provider access to employees and retirees.

As a part of this process, the Team recommends “carving out” to a self insured program the HMO prescription drug benefits, with these benefits administered by Navitus, the prescription drug manager (PBM) for the City’s self insured Basic Health Plan. It is the Team’s opinion that this approach will offer the greatest savings to the City, particularly over the long term as additional cost management provisions are added to the plan.

### ***Who Was on the Benefits Team?***

The City staff members on the Benefits Team were:

- **Michael Brady** – Director Employee Benefits, Department of Employee Relations
- **James Michalski, CPA**, – Auditing Manager, Office of the Comptroller
- **Troy Hamblin** – Labor Negotiator
- **Maria Monteagudo** – Director, Department of Employee Relations
- **Edwin Reyes** – Business Operations Manager, Department of Employee Relations
- **Katrina Whittley** – Employee Benefit Analyst, Department of Employee Relations
- **Marianne Walsh** – Research Manager, Legislative Reference Bureau
- **Dennis Yaccarino** – City Economist, Budget Office, Department of Administration

Assisting the City team were the following individuals:

- **Douglas Ley**, Vice President, Willis of Wisconsin, Inc.
- **Clete Anderson**, Assistant Vice President, Willis of Wisconsin, Inc.

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 These Recommendations?***

#### ***HMO Selection Process***

The City goals for its healthcare plans are to keep the cost as affordable as possible to the City while providing employees “choice.” The City offers two HMOs through Humana; the broad network Premier HMO and the narrow network HMO Select.

Because the number of HMOs available in the City are 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 Blue Cross Blue Shield (ABCBS)
- Humana
- UnitedHealthcare (UHC)
- WPS

Proposals were received from ABCBS, Humana, UHC and WPS.

Respondents were asked to provide quotes for a lower cost, narrow network HMO as well as a higher cost, broad network HMO. Respondents were asked to provide quotes assuming they would not be the only HMO offered. Lastly, they were asked to quote assuming prescription drugs would remain in the HMO, or alternatively, the prescription drugs would be carved out to a self insured basis.

ABCBS’s HMO proposal was for a “self insured HMO.” WPS’s HMO proposal was for an “insured EPO.” The team conferred with the Ellen Tangen, Assistant City Attorney, and confirmed that both proposals were non-responsive. The City’s existing collective bargaining agreements require that the benefits must be provided through an insured HMO.

Humana quoted insured broad and narrow network HMOs, with the prescription drugs included as well as carved out. UHC quoted on including, and carving out, the prescription drugs, however UHC did not offer broad and narrow network HMOs, just a broad network HMO. Neither would quote rates assuming another HMO vendor would be offered.

The Team wants to make special note of these results. There are a limited number of possible HMO vendors remaining in Milwaukee, an even a fewer number that can actually quote the required insured HMO coverage, and none that would quote assuming there would be multiple HMOs vendors offered. It is foreseeable in the not-too-distant future that no vendor will provide an insured HMO quote. It is for this reason that it is important that the City must be able to offer a self insured HMO, also called an EPO (Exclusive Provider Organization). A self insured HMO will provide more vendors willing to quote, as well as, in the long run, allow the City to more effectively manage the cost of the plan and receive the cost reductions of the improved management.

A summary of the final 2008 annual premiums, City cost and employee and retiree contributions follow below. These figures are based on annualized premiums using the current, non-changing enrollment.

The first exhibit illustrates the total expected cost of HMO benefits for 2008 including prescription drugs. The second exhibit illustrates the HMO cost excluding prescription drugs. The Team needed to analyze the prescription drug premium credit received from the HMOs to determine whether this credit was appropriate for the prescription drugs costs. If the credit was deemed too low, then it would not make financial sense to carve out the prescription drugs, since the limited HMO premium credit would more than cancel out any saving that could be gained by management under the self insured PBM.

**Current Benefit Plans**

**2007**

	Premium	Employees	City
Employees			
Narrow Network HMO	\$59,023,339	\$0	\$59,023,339
Broad Network HMO	\$85,744	\$39,813	\$45,932
Total	\$59,109,083	\$39,813	\$59,069,271
Percent Change			

	Premium	Retirees	City
Pre Medicare Retirees			
Narrow Network HMO	\$9,113,652	\$0	\$9,113,652
Broad Network HMO	\$994,650	\$0	\$994,650
Total	\$10,108,302	\$0	\$10,108,302
Percent Change			

	Premium	Retirees	City
Post Medicare Retirees			
Narrow Network HMO	\$3,355,241	\$2,516,508	\$838,733
Broad Network HMO	\$2,281,152	\$1,710,865	\$570,287
Total	\$5,636,392	\$4,227,373	\$1,409,019
Percent Change			

	Premium	Retirees	City
Combined Retirees			
Narrow Network HMO	\$12,468,893	\$2,516,508	\$9,952,385
Broad Network HMO	\$3,275,802	\$1,710,865	\$1,564,937
Total	\$15,744,695	\$4,227,373	\$11,517,322
Change			

	Premium	Employees	City
Combined			
Narrow Network HMO	\$71,492,232	\$2,516,508	\$68,975,724
Broad Network HMO	\$3,361,546	\$1,750,677	\$1,610,869
Total	\$74,853,778	\$4,267,185	\$70,586,593
Percent Change			

Difference From Lowest

**Rx Coverage Included**

**2008**

**Humana**

	Premium	Employees	City
Employees			
Narrow Network HMO	\$70,172,773	\$0	\$70,172,773
Broad Network HMO	\$101,941	\$47,334	\$54,608
Total	\$70,274,715	\$47,334	\$70,227,381
Percent Change	18.89%	18.89%	18.89%

	Premium	Retirees	City
Pre Medicare Retirees			
Narrow Network HMO	\$10,835,194	\$0	\$10,835,194
Broad Network HMO	\$1,152,195	\$0	\$1,152,195
Total	\$11,987,389	\$0	\$11,987,389
Percent Change	18.59%	0.00%	18.59%

	Premium	Retirees	City
Post Medicare Retirees			
Narrow Network HMO	\$3,989,047	\$2,991,790	\$997,257
Broad Network HMO	\$2,712,061	\$2,034,043	\$678,017
Total	\$6,701,108	\$5,025,833	\$1,675,274
Percent Change	18.89%	18.89%	18.90%

	Premium	Retirees	City
Combined Retirees			
Narrow Network HMO	\$14,824,241	\$2,991,790	\$11,832,451
Broad Network HMO	\$3,864,255	\$2,034,043	\$1,830,212
Total	\$18,688,497	\$5,025,833	\$13,662,663
Change	18.70%	18.89%	18.63%

	Premium	Employees	City
Combined			
Narrow Network HMO	\$84,997,015	\$2,991,790	\$82,005,225
Broad Network HMO	\$3,966,197	\$2,081,377	\$1,884,820
Total	\$88,963,212	\$5,073,167	\$83,890,045
Percent Change	18.85%	18.89%	18.85%

Annual cost: \$10,220,734

\$1,594,307

\$8,626,427

Humana did not offer a rate increase cap.  
 Humana also charges an annual \$9.50 fee/ eligible  
 EE to access the BHCGSW network.  
 Annual cost: \$100,000

**2008**

**UHC**

	Premium	Employees	City
Employees			
Narrow Network HMO	\$65,822,282	\$0	\$65,822,282
Broad Network HMO	\$51,222	\$0	\$51,222
Total	\$65,873,504	\$0	\$65,873,504
Percent Change	11.44%	-100.00%	11.52%

	Premium	Retirees	City
Pre Medicare Retirees			
Narrow Network HMO	\$7,622,578	\$0	\$7,622,578
Broad Network HMO	\$607,934	\$0	\$607,934
Total	\$8,230,512	\$0	\$8,230,512
Percent Change	-18.58%	0.00%	-18.58%

	Premium	Retirees	City
Post Medicare Retirees			
Narrow Network HMO	\$2,806,316	\$2,104,746	\$701,571
Broad Network HMO	\$1,832,145	\$1,374,114	\$458,031
Total	\$4,638,462	\$3,478,860	\$1,159,601
Percent Change	-17.71%	-17.71%	-17.70%

	Premium	Retirees	City
Combined Retirees			
Narrow Network HMO	\$10,428,894	\$2,104,746	\$8,324,148
Broad Network HMO	\$2,440,080	\$1,374,114	\$1,065,965
Total	\$12,868,974	\$3,478,860	\$9,390,113
Change	-18.26%	-17.71%	-18.47%

	Premium	Employees	City
Combined			
Narrow Network HMO	\$76,251,176	\$2,104,746	\$74,146,430
Broad Network HMO	\$2,491,302	\$1,374,114	\$1,117,188
Total	\$78,742,478	\$3,478,860	\$75,263,617
Percent Change	5.20%	-18.47%	6.63%

\$0

\$0

\$0

UHC offered a 2009 and 2010 rate increase cap  
 schedule based on incurred claims loss ratios.

**City Of Milwaukee**

*Benefits Team Recommendations Regarding 2008 Contracts for HMOs*

June 11, 2007

**Current Benefit Plans**

**2007**

Employees	Premium	Employees	City
Narrow Network HMO	\$59,023,339	\$0	\$59,023,339
Broad Network HMO	\$85,744	\$39,813	\$45,932
<b>Total</b>	<b>\$59,109,083</b>	<b>\$39,813</b>	<b>\$59,069,271</b>

Pre Medicare Retirees	Premium	Retirees	City
Narrow Network HMO	\$9,113,652	\$0	\$9,113,652
Broad Network HMO	\$994,650	\$0	\$994,650
<b>Total</b>	<b>\$10,108,302</b>	<b>\$0</b>	<b>\$10,108,302</b>

Post Medicare Retirees	Premium	Retirees	City
Narrow Network HMO	\$3,355,241	\$2,516,508	\$838,733
Broad Network HMO	\$2,281,152	\$1,710,865	\$570,287
<b>Total</b>	<b>\$5,636,392</b>	<b>\$4,227,373</b>	<b>\$1,409,019</b>

Combined Retirees	Premium	Retirees	City
Narrow Network HMO	\$12,468,893	\$2,516,508	\$9,952,385
Broad Network HMO	\$3,275,802	\$1,710,865	\$1,564,937
<b>Total</b>	<b>\$15,744,695</b>	<b>\$4,227,373</b>	<b>\$11,517,322</b>

Combined	Premium	Employees	City
Narrow Network HMO	\$71,492,232	\$2,516,508	\$68,975,724
Broad Network HMO	\$3,361,546	\$1,750,677	\$1,610,869
<b>Total</b>	<b>\$74,853,778</b>	<b>\$4,267,185</b>	<b>\$70,586,593</b>

Percent Change			
		Difference From Lowest	

Value of Rx			

**Rx Coverage Carved Out**

**2008**

Humana	Premium	Employees	City
	\$57,246,724	\$0	\$57,246,724
	\$82,906	\$38,357	\$44,549
<b>Total</b>	<b>\$57,329,630</b>	<b>\$38,357</b>	<b>\$57,291,273</b>

Humana	Premium	Retirees	City
	\$8,839,306	\$0	\$8,839,306
	\$937,044	\$0	\$937,044
<b>Total</b>	<b>\$9,776,350</b>	<b>\$0</b>	<b>\$9,776,350</b>

Humana	Premium	Retirees	City
	\$3,989,047	\$2,991,790	\$997,257
	\$2,205,644	\$1,654,243	\$551,400
<b>Total</b>	<b>\$6,194,691</b>	<b>\$4,646,033</b>	<b>\$1,548,657</b>

Humana	Premium	Retirees	City
	\$12,828,353	\$2,991,790	\$9,836,563
	\$3,142,688	\$1,654,243	\$1,488,444
<b>Total</b>	<b>\$15,971,040</b>	<b>\$4,646,033</b>	<b>\$11,325,007</b>

Humana	Premium	Employees	City
	\$70,075,077	\$2,991,790	\$67,083,287
	\$3,225,594	\$1,692,600	\$1,532,993
<b>Total</b>	<b>\$73,300,671</b>	<b>\$4,684,390</b>	<b>\$68,616,280</b>

Percent Change			
	-2.07%	9.78%	-2.79%
	\$10,280,939	\$1,900,169	\$8,380,770

Value of Rx			
	\$15,662,541	\$388,777	\$15,273,765

**2008**

UHC	Premium	Employees	City
	\$52,679,349	\$0	\$52,679,349
	\$40,995	\$0	\$40,995
<b>Total</b>	<b>\$52,720,344</b>	<b>\$0</b>	<b>\$52,720,344</b>

UHC	Premium	Retirees	City
	\$6,100,539	\$0	\$6,100,539
	\$486,550	\$0	\$486,550
<b>Total</b>	<b>\$6,587,089</b>	<b>\$0</b>	<b>\$6,587,089</b>

UHC	Premium	Retirees	City
	\$2,245,978	\$1,684,482	\$561,496
	\$1,466,320	\$1,099,739	\$366,581
<b>Total</b>	<b>\$3,712,298</b>	<b>\$2,784,221</b>	<b>\$928,077</b>

UHC	Premium	Retirees	City
	\$8,346,517	\$1,684,482	\$6,662,035
	\$1,952,870	\$1,099,739	\$853,131
<b>Total</b>	<b>\$10,299,387</b>	<b>\$2,784,221</b>	<b>\$7,515,166</b>

UHC	Premium	Employees	City
	\$61,025,866	\$1,684,482	\$59,341,384
	\$1,993,865	\$1,099,739	\$894,126
<b>Total</b>	<b>\$63,019,731</b>	<b>\$2,784,221</b>	<b>\$60,235,510</b>

Percent Change			
	-15.81%	-34.75%	-14.66%
	\$0	\$0	\$0

Value of Rx			
	\$15,722,747	\$694,639	\$15,028,107

Humana did not offer a rate increase cap.  
 Humana also charges an annual \$9.50 fee/ eligible EE to access the BHCGSW network.  
 Annual cost: \$100,000

UHC offered a 2009 and 2010 rate increase cap schedule based on incurred claims loss ratios.

The first exhibit shows UHC's proposal provides the lowest overall net cost to the City at roughly \$75.3 million versus Humana's total of \$83.4 million, a difference of \$8.6 million. Humana's rate proposal represents an across-the-board 18.9% rate increase over 2007. UHC's total composite rate increase is 5.2%, but that figure is comprised of an 11.4% rate increase for employees, a 17.7% decrease for pre-Medicare retirees, and an 18.3% decrease for post-Medicare retirees. Since UHC's rates are \$10.2 million lower than Humana's, \$78.7 million versus \$88.9 million, UHC's proposal is not only \$8.6 million lower to the City, it is also \$1.6 million lower to employees and retirees through reduced contributions.

The second exhibit illustrates that Humana valued the prescription drug cost at \$15.66 million for carving it out, and UHC at \$15.72 million, less than four tenths of one percent difference. An analysis was done of prior HMO prescription drug claims experience, both under the current Humana HMOs as well as the prior HMOs through CompCare. This previous experience, adjusted for inflation, suggested that the \$15.7 million premium credit quoted by UHC for carving out the prescription drugs is an appropriate figure and the City was receiving a proper credit.

The vendors were asked if they would offer a cap on their 2009 and 2010 rate increases. Humana declined. UHC offered a cap using a schedule capping rate increases based upon incurred claims loss ratios. While certainly better than nothing, the range of loss ratios needed for the cap to come into play are both fairly tight as well as unlikely to occur, and there is no cap if experience is truly poor. Copies of the quoted rates and rate cap can be found in the appendix in "2008 HMO Rate Quotes."

While given only 5% weight, UHC also scored the highest on its qualitative response to the RFP. Please see the Appendix exhibit "2008 HMO Proposal Scoring Summary" for details.

The Humana proposal and rates were firm with no contingencies. The UHC proposal included a number of contingencies, including the need to file the HMO benefit plan with the State Insurance Department. Those contingencies can be found in the exhibit Appendix 2008 HMO Rate Quotes - UHC. UHC was asked and confirmed that its quoted rates were firm, nonetheless, and the Team determined that none of those contingencies would constitute an impediment to choosing UHC.

The lower cost to the City as well as the higher qualitative and overall score led the Team to select the UHC proposal. The credit to premiums given to carving out the prescription drugs was appropriate so the Team concluded that the prescription drugs should be carved out and managed by Navitus, which should give the City lower prescription drug costs over time.



**Appendix**

- 2008 HMO Quotes Comparison
- 2008 HMO Proposal Scoring Summary
- 2008 HMO Rate Quotes
  - Humana
  - UHC