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July 19, 2005

Finance and Personnel Committee
City of Milwaukee Common Council
200 East Wells Street
Milwaukee, WI 53202

RE: File # 050432: "Investigate Options for Reducing Health Care Costs"

Dear Members of the Finance and Personnel Committee:

Thank you for attending the June 29, 2005 Finance and Personnel Committee, and for your attention to item 5, Resolution #050164 "A presentation on Health Care Cost Issues," and item 6, Resolution 050300 regarding Health Care contracts for 2006.

Resolution #050432 directs the Department of Employee Relations "to investigate options for reducing the cost of health care benefit provision for City of Milwaukee employees ... explore and evaluate various options in the approach in health care savings and to issue a report, in four months, to the Common Council ... include options for consideration by the Council for the purposes of initiating a cost savings plan ..."

The Department will do this. The effort to control health care costs is an ongoing process. I would be pleased to share with you some of the ongoing efforts related to controlling health care costs, including information that was shared at the June 29, 2005 Finance and Personnel Committee meeting.

The City has changed the employee share of the Basic Plan over the years, including changes for represented employees from \$25 single and \$50 family in 2001 to \$75 single and \$150 family in 2006. Management employees have been paying the difference between the low cost HMO and the Basic Plan since 2003. Management employees as of 2005 have a 20% coinsurance with a \$1000 family cap for prescription benefits with both HMO plans, rather than the \$4 generic and \$8 brand name co-pay that represented employees still have.

Note that any changes in represented employee benefits are negotiated through labor contracts. Health care benefits are a mandatory subject of collective bargaining. The Common Council is has the authority to make changes to management employee benefits. These are very important policy decisions for the Common Council to consider as part of the larger picture of controlling health care costs. In 2006 the City will cavre out prescription benefit management services for employees and retirees in the Basic Plan to Navitus Health Services.

In the forthcoming report DER can offer additional information about:

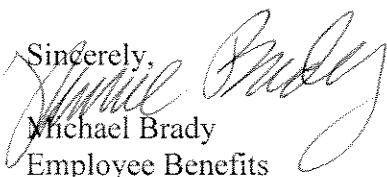
- **Consumer directed benefit plan models** that put additional costs and responsibilities on the users of health care while offering health savings accounts such as those offered by Humana to the Business Health Care Group of Southeast Wisconsin that limit the doctors or hospitals members can select as well as make changes to the premium and benefit schedule.
- Health care models with a **larger role for state or federal government** such as the Wisconsin Health Plan proposed by State Representatives Curt Geilow and Jon Richards which requires every employer to pay 8-12% of their payroll for health care, similar to Workers Compensation and Unemployment Compensation, or a plan proposed by David Newby of the State AFL-CIO that requires all employers to pay a fixed amount, about \$300 per month per employee..
- Making other **changes in benefit structure**, premium sharing, co-insurance and co-pays that would reduce the cost to the City but in many cases shift costs to employees
- Making **improvement in quality, safety and efficiency** through doctors, hospitals and providers of health care.
- Using **steerage** to a network within the Basic Plan to get larger discounts while limiting choices.
- **Working collaboratively** with others, whether in the type of models for health care or actually turning health care over to another level of government, as could be done with the State plan for municipalities.

Among past and current activities that can be shared and elaborated on in the same report are:

- Milwaukee Task Force on Health Care Cost Controls Report, September 30, 2003
- A comparison of City costs with State, Milwaukee County, MPS and Sewage District in 2001, 2003 and 2005
- 2005 Request for Proposal for Basic Plan Services, HMO services and carve out of Prescription Benefit Management program; April 1, 2005
- Staff Recommendation regarding RFP; June 23, 2005
- Willis report regarding RFP recommendations, June 28, 2005
- Willis presentation to F/P committee June 29, 2005 (this power point is on City web site from June 29, 2005 meeting)

- The **Wisconsin Health Plan** announced by State Representatives Curt Gielow and Jon Richards, June 15, 2005
- The **Business Health Care Group of Southeast Wisconsin** (BHCSEW) has been around since 2003 and includes many large private employer groups. The coalition's goal is to control escalating health care costs by promoting direct consumer involvement; provide access to doctor/hospital price and performance information to be posted on the coalition's Web site; and improved efficiency and accountability in the delivery of medical services. This group had previously announced a Maximum Allowable Cost Plan (MAC), which severely limited the number of doctors and hospitals that would accept MAC pricing. In January 2005 BHCSEW announced plans to work with Humana on a consumer directed plan to control costs. In June 2005 the plan with Humana was announced. The plan excludes any of the Covenant hospitals and doctors, and reports to have better discounts from the other hospital groups.
- As you are aware, the City under the managed competition model currently provides employees with a narrow HMO network, a broad HMO network and a Basic Plan. The two HMO networks offered by the City require that they be exclusive in 2006. Humana and United Health Care bid on the City's contract for 2006 required that, in order to select them, they would have to be the exclusive provider. Their premiums for Humana HMO and United Health Care HMO products were significantly higher than the premiums of the Aurora Family Network HMO premium. The BHCSEWI did not directly respond to the City.
- The City has been involved with the **Wisconsin Purchasers for Health Care Quality**, a group that promotes the Leapfrog Safety standards and has been in the forefront of supporting efforts to have hospitals and doctors publicly report data. The Wisconsin Hospital Association has been reporting data through their "Checkpoint" plan and the Wisconsin Collaborative for Healthcare Quality, a group of hospitals in Wisconsin, report quality information as well.
- The City has also participated in the **Patient Choice Plan** through WPS for management employees in 2005. This is consistent with the managed competition model the City has used for the past 17 years. The Patient Choice plan provides lower costs to employees who select the plans that offer the highest quality and lowest cost. The premise is that providing higher quality health care services does lower costs and increases value, but does not always provide everyone with the choice of doctors they want at the lower cost.

Thank you for your interest in this most important issue. I look forward to presenting a report in November 2005.

Sincerely,

Michael Brady
Employee Benefits