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May 22, 2008

Mr. Michael J. Brady
Director
Department of Employee Relations
City Of Milwaukee
Room 701, City Hall
200 East Wells Street
Milwaukee, WI 53202-3560

Re: UHC 1/1/09 HMO Rate Renewal Offer

Dear Mike:

United Healthcare has offered to renew the City's HMO contract for 2009 for an across-the-board 9.99% rate increase, based on the premise that the City would not put the HMO contract out for bids. We think that the offer is reasonable and recommend that the City accept UHC's offer without bidding the HMO contract for the following reasons:

- While one might argue that UHC's suggested rate increase of 25.85% (see attached UHC exhibits), based on its analysis of experience, is conservative/high, it is clear that UHC is taking a risk on the renewal and "making and investment" in its relationship with the City,
- UHC could quote higher rates if the contract is put out to bids, which would then cost the City more,
- UHC's 2009 rates, making assumptions on the recently carved out prescription drug program, are actually lower than the rates that Humana, the City's HMO in 2007, quoted for its 2008 rates. Given this circumstance, we find it highly unlikely that Humana would quote rates lower in 2009 than it did in 2008 – the only way Humana could quote a more attractive financial arrangement than UHC,
- Based on prior bidding results and knowledge of the marketplace, UHC and Humana are the only two viable insured HMOs for the City, so putting the contract out for bids would not provide any additional alternatives,
- The City is saved the expense, effort and disruption of changing HMOs again, and

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- There is value in establishing a long-term relationship with an HMO. Changing HMOs every year is more likely to accelerate the day when no HMO will quote anymore.

Sincerely,



Clete R. Anderson
Vice President
Willis Employee Benefits Practice

cc: Douglas Ley

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