City Of Milwaukee

Benefits Team Recommendations Regarding 2010 Contract for HMO

Willis HRH
One Plaza East, Suite 1400
330 East Kilbourn Avenue
Milwaukee, WI 53202-3195
(414) 271-9800

Table of Contents

Appendices

Appendix

- 2010 UHC HMO Rate Renewal
- 2010 UHC Renewal Calculation
- Premium vs. Claims Incurred (Loss Ratio)
- EPO Cost Comparison

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 for 2010 with UnitedHealthcare (UHC). UHC is the incumbent HMO. The UHC proposal is the only compliant, i.e., insured HMO, proposal.

Who Was on the Benefits Team?

The City staff members on the Benefits Team were:

- **Michael Brady** – Director Employee Benefits, Department of Employee Relations
- **Aaron Cadle** – Legislative Fiscal Analyst, Common Council City Clerk, Fiscal Review Section
- **James Michalski, CPA,** – Auditing Manager, Office of the Comptroller
- **Renee Joos** – Special Assistant, Budget Office
- **Edwin Reyes** – Business Operations Manager, Department of Employee Relations
- **Katrina Whittley** – Employee Benefit Analyst, Department of Employee Relations
- Nicole Fleck, Labor Relations Representative, Department of Employee Relations

Assisting the City team were the following individuals:

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

The City retained the services of Willis HRH 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 currently offers one HMO through UHC, a broad network HMO.

Because the number of HMOs available in the City 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)
- 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 and assuming prescription drugs would be carved out to 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 and have a broad provider network, but the program would be self insured rather than insured as is the case with the HMO. Some of the City's existing collective bargaining agreements require that the benefits must be provided through an insured HMO. However, EPO proposals were sought in the event that either the HMO proposal received would be deemed uncompetitively priced, or no vendor would even provide an HMO proposal.

Proposals were received from Anthem, Humana, UHC and WPS. UHC provided a broad network HMO proposal and an EPO proposal. Anthem, Humana and WPS only provided EPO proposals.

UHC offered to renew the HMO contract with an across-the-board 20.4% rate increase. A summary of the rates and annualized premiums can be found in the Appendix.

The team determined that its analysis must address whether UHC's 20.4% renewal offer was reasonable and competitive, or whether one of the EPO proposals would provide a convincing expectation of savings versus the added risk of a self insure plan. **The team determined that the UHC proposal was reasonable and competitive. A summary of the findings follows.**

Found in the Appendix is the HMO rate renewal calculation illustrating the assumptions and methodology that went into UHC's rate renewal. Two fundamental components of the projection are the annual health care trend, the expected increase in health care costs. UHC used and annual trend factor of 12.48%. The other 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 16.1% as the percent of each premium dollar it needs to cover its expenses.

In our analysis we modeled the impact on costs in a self insured EPO of using a lower trend rate as well as the lower administration costs associated with a self insured plan to determine if a self insured plan could be less costly.

Below is a comparison of the UHC renewal calculation with an EPO assuming the same 12.48% annual trend rate as well as an 11% trend rate. Also the retention/expense charges for a self insured PPO 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.

Cost Projection Comparison

	UHC	EPO	EPO
Annual Trend	12.48%	12.48%	11%
Current Claims	$345.87	$345.87	$345.87
Total Trend	124.1%	124.1%	121.1%
Trended Claims	$429.09	$429.09	$418.80
Pooling	$2.91	$2.91	$2.91
Total Claims	$432.00	$432.00	$421.71
Retention	16.1%	7.4%	7.4%
Suggested Total Premium	$514.85	$466.53	$455.41
Suggested Increase	35.64%	22.9%	20.0%
Renewal Offered	$457.01	$466.53	$455.41
Current Premium	$379.58	$379.58	$379.58
Increase	20.4%	22.9%	20.0%

First, one should note that the calculation suggested a 35.64% rate increase, which UHC reduced to 20.4% without written explanation. When asked, UHC indicated that the reduction came from reduced retention rather than reduced trend, suggesting that UHC believes that its trend factor is accurate and is accepting reduced administration.

The analysis looked at the impact of using the same or a lower trend rate for the EPO. Using the same trend rate projected EPO costs higher than the HMO. Cutting the trend to 11% produced a “renewal action” slightly lower than the 20.4%, but the HMO increase is guaranteed while the EPO figure is simply an estimate. No one knows what trend will be next year, but historical evidence would indicate that going much lower than the 11% would be optimistic, and does not include the random claim fluctuation that can come with a self insured plan.

Also found in the Appendix is an exhibit showing the premium and incurred claims on the UHC policy since 1/1/2008. The loss ratio for 2008 was 91.1%, which was below UHC’s target of 83.9% (100% less the 16.1% retention), an effective retention level of a self insured plan with the benefit of insurance coverage. The loss ratio for 2009 is 101.2%, meaning UHC is paying out more in claims that it is receiving in premium this year and getting no retention. UHC’s renewal calculation did not include March 2009 which is the worst month to date. Had UHC included March no doubt its rate increase would have been even higher.

The combination of these factors led the Team to conclude that switching to an EPO with UHC would have limited likelihood of reducing plan cost and could even end up costing the City more.

The last piece of the analysis was to assess whether an EPO with Anthem, Humana or WPS would provide a convincing expectation of reducing cost more than the UHC EPO and enough to justify dropping the insured rates for the risk of claims fluctuation of a self insured plans.

Annual EPO administration fees could run anywhere from about $2 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. Based on expected 2010 claims of $83.4 million, each percentage point of network discount differential is worth $834,000, increasing each year with trend.

Among the four EPO offers, UHC was determined to have the lowest overall cost, if the City would choose to switch to an EPO type model in 2010.

The vendors were asked if they would offer a cap on their 2011 and 2012 rate increases. UHC declined.

The team acknowledges the fact that 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 first year. . 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 should one be available. Also note that while claims paid in the first year would be reduced, in the second year, assuming 10% trend, would increase 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.

Ultimately the team deemed the Anthem, Humana and WPS proposals as noncompliant because they did not provide HMO quotes. The UHC HMO proposal was determined to be reasonable given the expected claim cost of the program in 2010. Lastly, none of the EPO proposals provided a convincing expectation of savings versus the insured HMO rates or the added risk of claim fluctuation of a self insured program. There is value to the City of the financial protection provided by insured rates. Found below is a brief history of the City’s HMO program.

HMO History

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%, Humana increase 19%

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

2010 20.4% UHC rate renewal, UHC only carrier to quote

Changing to an EPO might well happen, but 2010 is not the year to do it. For all these reasons the Team recommends renewing the HMO contract with UHC for 2010.

Appendix

- 2010 UHC HMO Rate Renewal
- 2010 UHC Renewal Calculation
- Premium vs. Claims Incurred (Loss Ratio)
- EPO Cost Comparison