

## LRB-Research & Analysis Section

**Finance & Personnel Committee**  
**File: 110176**

**July 20, 2011**  
**Aaron Cadle**

**Title:** Resolution authorizing the Department of Employee Relations to enter into a contract with a vendor for City Health Maintenance Organization/Exclusive Provider Organization for health benefits for 2012-2014.

### Introduction

This resolution accepts the recommendation of the Benefits Review Team that the City switch from its insured Health Maintenance Organization ("HMO") plan to a self-funded Exclusive Provider Organization ("EPO") program for 2012, and grants a 3-year contract for 2012-2014 to UnitedHealthcare ("UHC") to administer the self-insured EPO and maintain the healthcare provider network.

The Benefits Review Team members included:

Mike Brady	Department of Employee Relations
Jim Michalski	Office of Comptroller
Renee Joos	Budget Office
Troy Hamblin	DER - Labor Relations Section
Matthew Hanchek	Milwaukee County Employee Benefits

### Analysis of Recommendation

This recommendation does not consider any health benefit plan design changes separately proposed by the DER in Common Council File #110300 - e.g., \$500 deductibles per person with a maximum of \$1,000 per family, 10% co-pays of \$500 per person after satisfying the deductible with a maximum of \$1,000 per family, etc.

The Benefits Review Team followed the same analytical model used in past years to:

1. Determine UHC was the only compliant insured HMO bidder.
2. Conclude the City should switch to a self-insured EPO because it was cheaper for the City than the current insured HMO.

## **Recommendation to Switch to a Self-insured EPO**

Insured HMO bidders were not asked to formally bid on the revised plan design recommended by DER, or on any other plan design alternatives. The team felt this was unnecessary because the rankings of quotes received would remain the same – only the amplitude of the differential would change. Moreover, once UHC was selected as the only compliant bid, the team continued to compare UHC's bid on the 2011 plan design to healthcare consultant Willis' estimate of costs if the City self-insured the 2011 plan design through an EPO. Costs for both UHC's bid and Willis' EPO estimate were expected to ratchet downward by the same percentage if the plan design changes recommended by DER were adopted, so the comparison would still be valid.

When asked, UHC estimated quoted premiums would decline 15.6% if the City revised its plan design per DER's recommendation.

Willis' estimate of EPO costs is based on the same incurred cost history as UHC's insured HMO bid, so as long as Willis used a lower health cost trend rate (8% vs. 11.5% used by UHC), and a lower retention rate for costs and profits (imputed by LRB at 8% for Willis and vs. 9.1% for UHC), the EPO will always be cheaper than the HMO.

Willis' report does not elaborate on why the consultant chose a health cost trend rate 3.5% lower than used by UHC.

Although the numbers provided by Willis and LRB's independent calculations differ somewhat, the projected savings for the City from switching to a self-insured EPO appears to be approximately \$6 million – quite enough to justify the added risk of self-insuring. However, an underestimation of the health cost rate used for EPO cost projections could serve to narrow the gap between UHC's bid and the EPO estimate – potentially to the point that a switchover would no longer be warranted.