



Department of Employee Relations

May 14, 2020

Alderman Michael Murphy, Chairman
City of Milwaukee Common Council Finance and Personnel Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

Tom Barrett
Mayor

Maria Monteagudo
Director

Renee Joos
Employee Benefits Director

Nicole Fleck
Labor Negotiator

File No: 191938 Authorizing DER to Issue a Request for Proposal for Stop Loss Insurance

Dear Alderman Murphy and Finance Committee Members:

The City of Milwaukee provides healthcare and prescription drug benefits to eligible employees and retirees. Prior to 2012, healthcare expenditures for the City were increasing at a rate of 8-9% annually. To help mitigate this unsustainable trend, the City took steps in 2012 which included moving to self-insure all health plans, increasing member premium payments, adding benefit design changes and implementing a wellness program for employees to control the rising costs of health care and encourage better utilization by members. The City continues to self-insure the health plans provided to employees and retirees which provides cost savings to the City.

There is a risk to self-insured entities because annual health and pharmacy plan experience can be volatile causing annual expenditures to significantly vary. Volatility results from variations in normal utilization levels as well as the number of individuals who experience large aggregate medical and pharmacy expenses in any one year and the costs associated with those claims. These events are highly randomized and difficult to predict, producing volatility risk.

To help address this risk, the City established and maintained a health care reserve fund to protect the health care budget from normal expected expenditure variations. After five years of level claim costs, the City experienced higher than anticipated medical and pharmacy claim expenditures in 2018 and 2019 depleting the reserve fund. In addition, over the last few years, the City has seen an increase in the number of high cost claims reaching and exceeding \$1M or more. Claims reaching this level used to be very rare; however, in any given year there is currently a 23% chance a health plan will have a claim in excess of \$1M.

Due to the depletion of the health care reserve fund and the increase in high cost claims, the City feels it would be prudent to explore stop loss coverage for its self-insured health plans. Stop loss insurance coverage provides an additional layer of protection to self-funded plans by covering costs for catastrophic claims exceeding predetermined levels. While this does not replace the reserve fund and normal levels of expenditure variation, it prevents the City from assuming total liability for expenditures arising from extremely high medical and pharmacy claims.



The Department of Employee Relations (DER) will work with its consultant, Gallagher Benefits Services, to execute a Request for Proposal process for Stop Loss Insurance. A review team will be selected to evaluate the responses including a financial analysis by Gallagher. The DER will return to the Finance and Personnel Committee later this year with a recommendation for an insurance carrier.

I am happy to answer any questions or comments regarding this file.

Sincerely,
Renee Joos
Employee Benefits

