LRB-Research & Analysis Section	
Finance & Personnel Committee	**June 30, 2010**
File: 100203	**Aaron Cadle**

Title: Substitute resolution authorizing the Department of Employee Relations to enter into a contract for health benefits for 2011.

Introduction

This resolution accepts the recommendation of the Benefits Review Team that the City NOT switch from its insured Health Maintenance Organization ("HMO") plan to a self-funded program at this time, and grants a one-year contract for calendar year 2011 to UnitedHealthcare ("UHC") to insure the City's HMO despite a 17.05% premium rate increase.

The Benefits Review Team members include:

Mike Brady	Department of Employee Relations
Jim Michalski	Office of Comptroller
Renee Joos	Budget Office
Nicole Fleck	DER - Labor Relations Section
Aaron Cadle	Legislative Reference Board

Fiscal Impact

The fiscal impact of this resolution will be delayed until 2011 when the costs of employee HMO benefits will increase roughly $21,526,063, or 23.54%, over 2010 Adopted budget costs of $91,461,000. HMO budgeted expenses for 2011 are expected to be approximately $112,987,063. Roughly 5.54% of the $21,526,063 increase, or $5,064,676, is "structural" and comes from underestimated 2010 HMO enrollment. The remaining $16,461,387 increase stems from UHC's 17.05% premium rate increase (effectively 18% above the original budget underestimation).

The DER sees no significant cost savings in the other components of employee healthcare benefits (e.g. Basic Plan claims, prescription claims) to offset this $21,526,063 cost increase.

Fiscal Impact on Pre-Medicare Retirees (under age 65)

Because UHC, at the DER's request, "balanced" its rates (see Discussion Section below), the 17.05% rate increase is not uniform, but varies per class of employee covered. Rates for active employees are up 11.63%, rates for retirees under 65 go up 54.93%, and rates for retirees over 65 go down 15.59%.

The City pays 100% of HMO costs for general City retirees under 65 and management retirees under 65 pay the same as active employees for HMO benefits, so these HMO participant classes will not be personally affected by the 54.93% rate increase.

For fire and police retirees under 65, the City pays an amount equal to 65-100% of Basic Plan premiums, based on the retiree's "sick leave balance" at retirement, and will pay this amount whether the retiree chooses the HMO or the Basic Plan. Employees choosing the Basic Plan will, therefore, always pay from zero to 35% of Basic Plan coverage, and may pay less or more for HMO coverage depending on how HMO premium rates compare to Basic Plan rates.

There are 479 fire and police retirees under 65 – 137 with single and 342 with family healthcare coverage. Some of these retirees could be significantly affected on a personal basis by UHC's 54.93% rate increase.

Because the portion of healthcare premiums paid by the City varies per retiree, and because each retiree is free to choose between the HMO and the Basic Plan, it is not possible to project definitively the possible aggregate personal costs of UHC/s rate increase for fire and police retirees under 65.

Background

The City offers employees two healthcare benefit plans, an insured HMO program where the City pays healthcare insurance premiums (less any contribution paid by employees) to an insurer. Claims are paid by the insurer, and the Basic Plan, a self-insured plan where the City acts as its own insurance company and pays claims directly after a third-party administrator approves payment.

The HMO does not include prescription medication coverage. Prescription medication benefits are paid directly by the City in a self-insured program administered by Navitus.

In the past, the City was prohibited by most labor contracts from self-insuring its HMO, but since letting the last insured HMO contract for 2010, all but 3 unions have agreed to allow the City to offer a self-insured HMO. The City is cautiously optimistic the holdout unions, the Milwaukee Police Supervisors Organization ("MPSO"), Local #61 and the Allied Services Police Personnel ("ALEASP"), will eventually acquiesce, but plans to proceed with a self-insured HNO-type program if the economics dictate.

A self-insured HMO, known as an EPO (“Exclusive Provider Organization”) allows the City to act as its own healthcare insurer and, after approval by a third-party plan administrator, pay healthcare claims directly much as it does under the Basic Plan.

Insured HMO

For the second year in a row, the City received only one response to its RFP for an insured HMO program for 2011 from UnitedHealthcare, the City’s insured HMO provider since 2008. UHC is proposing an across-the-board increase of 17.05% for 2011 which comes on the heels of a 20.40% increase last year and a 9.99% increase in 2009.

EPO – Self-Insures HMO

The City received 4 responses to its RFP for an EPO Administrator for 2011. EPO Administrators provide a HMO-type network of physicians, clinics, hospitals and other healthcare service providers with contracted service discounts, process and approve claims, but all claims are paid by the City which acts as its own healthcare insurer.

Quoted monthly EPO plan administration fees per employee participant and annual fees assuming 7,311 employee participants are as follows:

EPO Administration Fee		
Vendor	Monthly Fee	Annual Fee
UHC	$39.85	$3,496,120
Humana	$38.45	$3,373,295
WPS	$24.35	$2,136,274
Anthem	$52.62	$4,616,458

Discussion

HMO vs. EPO (self-insured plan)

There were two steps to the Benefits Review Team’s analysis: First, determine if switching from an insured HMO to a self-insured EPO is in the City’s best interest, and then, if switching to an EPO is indicated, which EPO Administrator will provide the most economical service.

At the end of the day, the City pays all healthcare claims, whether through premiums paid to a healthcare insurer who in turn pays employee claims as in an insured HMO, or by paying claims directly to the healthcare provider as the City does in its Basic Plan and self-insured prescription drug program. No insurer will continue to insure a group if paid premiums do not fully cover all paid claims plus a retention rate for taxes, other administrative costs and a profit.

When UHC sets out to quote the City's insured HMO, the first thing it does is look at the City's paid claims history, then determines a suitable healthcare cost trend rate, and then extrapolates future costs through a trend line projection. This is exactly what the City would do to budget for anticipated healthcare expenses in an EPO plan.

The City's paid healthcare claims from April 1, 2009 to March 31, 2010 were $86,217,862, which UHC calculates is $385.42 per covered person per month.

UHC projects healthcares cost will trend up 12.51%, a trend the Willis Group, the City's healthcare consultant, deems reasonable, adds a retention rate of 14.64% to cover claims processing, fees, taxes and profits, and calculates rates should increase 24.79%. Just as they did last year, UHC then trims the rate increase to 17.05% without explanation, effectively reducing their retention rate to 9.05%.

Under an EPO plan, the City will have exactly the same claims experience as UHC's insured HMO, and Willis estimates the City's retention rate (claims processing, fees and taxes without taking a profit) will be 7.40%.

In theory, with the City's retention rate 1.65% less than UHC's rate, it would be more economical to launch an EPO for 2011, but the Benefits Review Team felt the projected savings – in the neighborhood of $1.2 million – was insufficient incentive to warrant taking the risk that paid claims could be substantially higher than projected, so the team recommends renewing UHC's contract to provide an insured HMO for City employees in 2011.

"Balancing" the Rate Increase

Rather than accepting an across-the-board rate increase of 17.05%, which means one participant class often "subsidizes" the "cost" of another class and can mask the true cost of each participant class, the DER requested that UHC "balance" the rate increase by participant class to more accurately reflect the underlying costs of each class. This resulted in an 11.63%-increase for active employee participants, a 54.93%-increase for retirees under 65 years old and a 15.59%-decrease in rates for retirees over 65. A rate breakdown follows:

Monthly Insured HMO Premiums - Active Employees				
Unitedhealthcare (UHC)	'08 Actual	'09 Actual	'10 Actual	'11 Proposed

Single Coverage	$ 403.75	$ 444.08	$ 534.67	$ 596.86
Family Coverage	$1,102.49	$1,212.63	$1,460.01	$ 1,629.83
year-to-year change		*9.99%*	*20.40%*	*11.63%*

Monthly Insured HMO Premiums - Pre Medicare Retirees				
Unitedhealthcare (UHC)	'08 Actual	'09 Actual	'10 Actual	'11 Proposed
Single Coverage	$ 410.22	$ 451.20	$ 543.24	$ 841.41
Family Coverage	$1,119.86	$1,231.73	$ 1,483.00	$ 2,298.14
Single with dependents	$1,146.76	$1,261.32	$ 1,518.63	$ 2,353.36
year-to-year change		*9.99%*	*20.40%*	*54.95%*

Monthly Insured HMO Premiums - Medicare Retirees				
Unitedhealthcare (UHC)	'08 Actual	'09 Actual	'10 Actual	'11 Proposed
Single	$ 330.48	$ 363.49	$ 437.64	$ 369.41
Couple	$ 660.92	$ 726.95	$ 875.25	$ 738.79
1 with & 1 without	$ 750.51	$ 825.49	$ 993.89	$ 838.83
1 w, 1 w/o & dependents	$1,058.38	$1,164.11	$1,401.59	$ 1,183.07
2 with & dependents	$ 968.79	$1,065.57	$1,282.95	$ 1,082.92
1 with & dependents	$1,058.38	$1,164.11	$1,401.59	$ 1,183.07
year-to-year change		*9.99%*	*20.40%*	*-15.59%*