

**An Audit of the
Milwaukee County
Employee Health Care Benefit**

June 2004

Committee on Finance and Audit

Richard D. Nyklewicz, Jr., Chairman
Ryan P. McCue, Vice-Chairman
Elizabeth M. Coggs-Jones
Roger H. Quindel
Michael Mayo, Sr.
Willie Johnson, Jr.
Gerry P. Broderick

Milwaukee County Department of Audit

Jerome J. Heer, Director of Audits

Audit Team

Jere Trudeau
Jim Felde, CPA, CFE
Paul Grant, CPA
Joe Williams, CIA
Narcisia Bland

Review Team

Doug Jenkins
Amos Owens

Administrative Support Team

Cathy Remiszewski
Cheryl A. Hosp
Karen J. Williams



Department of Audit

Milwaukee County

Jerome J. Heer

• Director of Audits

Douglas C. Jenkins

• Deputy Director of Audits

June 29, 2004

To the Honorable Chairman
of the Board of Supervisors
of the County of Milwaukee

We have completed an audit of the Milwaukee County Health Care Benefit. At its meeting on October 30, 2003, the Milwaukee County Board of Supervisors passed a Resolution [File No. 02-503(a)(p)] authorizing and directing the Director of Audits "...to initiate a formal audit of the employee health care benefit for the purpose of identifying additional insights and potential efficiencies regarding employee and retiree health care costs."

The report contains recommendations to address the findings of our audit, along with implementation strategies to take advantage of cost containment opportunities identified.

We would like to acknowledge the cooperation of the Department of Administrative Services and the County's Third Party Administrator, Humana, throughout the audit process. A response from the Director, Department of Administrative Services, is included as **Exhibit 8**.

Please refer this report to the Committee on Finance and Audit and Committee on Personnel.

Jerome J. Heer
Director of Audits

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Stephen Agostini, Acting Fiscal and Budget Administrator, Department of Administrative Services
Terrence Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff

An Audit of the Milwaukee County Employee Health Care Benefit

Table of Contents

Summary.....	1
Background.....	9
Audit Sections:	
Section 1: 2003 Health Care Cost Reduction Plan	18
Section 2: Comparison with Other Jurisdictions.....	22
Section 3: Milwaukee County Health Care Cost Drivers	38
Section 4: Milwaukee County Health Care Cost Oversight.....	66
Section 5: Potential Cost Containment Opportunities and Implementation Strategies	73
Exhibit 1 Audit Scope	78
Exhibit 2 Glossary of Health Insurance Terms.....	79
Exhibit 3 Milwaukee County Health Care Benefits.....	89
Exhibit 4 Monthly Premium Information from Large Wisconsin Jurisdictions	91
Exhibit 5 Survey of Wisconsin Counties – Employee Premiums	92
Exhibit 6 Survey of Wisconsin Counties – Deductibles/Co-Insurance	93
Exhibit 7 Survey of Wisconsin Counties – Prescription Co-Payments.....	96
Exhibit 8 Management Response from Department of Administrative Services.....	97

Summary

The cost of health care in the United States is an issue of national importance that is of growing concern among decision makers at all levels of government. With regard to health care cost challenges, the U.S. General Accounting Office concluded that public obligations threaten future federal and state budgets as well as the long-term health of the economy.

In light of the increasing pressure of health care costs on the County budget, at its meeting on October 30, 2003, the Milwaukee County Board of Supervisors passed a Resolution [File No. 02-503(a)(p)] authorizing and directing the Director of Audits "...to initiate a formal audit of the employee health care benefit for the purpose of identifying additional insights and potential efficiencies regarding employee and retiree health care costs."

Milwaukee County Health Care Plan Basics

Milwaukee County provides health care to employees and eligible retirees via a health care plan with three major options. Coverage is provided at a monthly premium cost to employees of \$80/single and \$100/family. Eligible retirees pay no monthly premiums; the County pays a monthly Medicare premium of \$66.60 for each covered retiree, thus making Medicare the primary insurer and achieving cost savings by virtue of Coordination of Benefits in a secondary insurer role. Following is a brief overview of the three options available to Milwaukee County Health Care Plan participants.

- **Humana HMO.** This is a fully insured Health Maintenance Organization (HMO) plan provided by Humana. Under the HMO option, employees and retirees are restricted to care from a network of Humana providers but have no medical deductibles or co-pays and very low prescription co-pays.
- **Humana PPO Network (Conventional Plan).** This is the County's Conventional Plan, administered by Humana. Under this plan, employees and retirees can choose any provider but have certain medical deductibles, co-insurance and prescription co-pays that are substantially higher than under the HMO option. Under the Conventional Plan, participants can reduce their deductibles and co-pays by limiting their choice of providers within the Humana Preferred Provider Organization (PPO) group.
- **Aurora Direct EPO Network (Conventional Plan).** This is a hybrid plan that matches the benefits and deductible/co-pay structure of the Humana HMO option, but is financed on the same self-funded, fee-for-service basis as the Conventional Plan. Under this option, employees and retirees are restricted to the Aurora Exclusive Provider Organization (EPO) network of health care facilities and providers.

The total number of employees and retirees enrolled in Milwaukee County's health care plan has remained relatively stable during the past seven-year period, with approximately 10,900 enrollees (excluding dependents). For year-end 2003, dependents of employees and retirees boosted the total number of plan members covered by the Milwaukee County health care benefit to approximately 20,300. While enrollments have been stable, Milwaukee County's total health care costs have increased dramatically since 1998, from \$50.3 million to its current budgeted level of \$101.3 million for 2004.

2003 Health Care Cost Reduction Plan

The 2003 Adopted Budget included \$80.6 million for fringe benefit health care. That figure represented a projected reduction, or 'savings' of \$10 million in comparison to earlier Division of Human Resources (DHR) estimates for 2003. The \$10 million cost reduction was projected as a result of a Health Care Cost Reduction Plan tentatively developed by DHR through the direct negotiation process with Humana and Aurora Health Care. DHR received independent validation of the \$10 million cost reduction estimate by an actuarial firm with expertise in the health care field.

To estimate the true savings of changes contained in the Health Care Cost Reduction Plan, we compared the County's actual 2003 health care cost experience against a projected hypothetical cost for the same services had they been rendered without the benefit of:

- The lower capitated premium rate obtained from Humana for 2003 HMO services.
- The superior provider discounts negotiated by Humana, as the new Third Party Administrator (TPA), as compared to the previous TPA, Wisconsin Physicians Service (WPS) and the greater geographic reach of the Humana PPO network in comparison to WPS, as well as greater discounts provided by Aurora facilities through the Aurora Direct EPO plan option.
- Improved discounts on prescription drug costs resulting from Humana's network of preferred pharmacies.

Taking these factors into account, we estimate that implementation of the 2003 Health Care Cost Reduction Plan saved Milwaukee County approximately \$7.6 million.

Plan Design Comparisons

We obtained information from the City of Milwaukee, Milwaukee Public Schools and the State of Wisconsin for purposes of making a general comparison of the employee health care benefit provided to each of these public entities with a large number of employees. In addition to those plan comparisons, we conducted a statewide survey of Wisconsin's 71 other counties to compare what covered employees contributed to their health care costs in terms of monthly premiums, annual deductibles, co-insurance and/or co-payments for medical services, co-payments for

prescription drugs, and maximum caps on out-of-pocket expenditures. Overall, 57 counties responded to our survey (80%). The results of our comparisons are presented in **Section 2** of the report, with additional detail provided in **Exhibits 4** through **7**.

Milwaukee County Health Care Cost Drivers

A thorough analysis of 2003 health care claims provides additional insight into how Milwaukee County spends its health care dollars. We began our analysis by obtaining from Humana all data associated with 2003 Conventional Plan claims processed and paid by Milwaukee County in 2003. This included approximately 460,000 claims totaling \$48.1 million in payments.

Demographics

One significant factor affecting the County's health care costs is the relatively advanced age of the pool of employees and retirees covered by the health care benefit. The average age of all members covered under the Milwaukee County Conventional Health Care Plan in 2003, including employees, retirees and their dependents, was 55 (compared with 36 for the average HMO member). Health Care System Consultants, Inc., a consulting firm with extensive experience analyzing Wisconsin public health care issues, stated in a January 2004 memo that Milwaukee County's average age is 10-12 years older than that of the other 13 Wisconsin counties served by the firm.

Data presented in this report shows that slightly more than half of the 2003 claims payments were for retirees, with more than 50% of retiree payments made on behalf of retirees under 65 years of age. The data also shows Milwaukee County health care costs generally with the average age of the member group, until Medicare Coordination of Benefits is established with the 65+ age group. To the extent this is a natural phenomenon associated with the frailties of age, this long-term cost driver cannot be altered. However, understanding some of the unique characteristics of Milwaukee County's health care benefit, in relation to other public health care plans, can provide insights useful in shaping effective strategies to combat the upward pressure on costs due to demographics. For instance:

- **Rule of 75.** Milwaukee County has a 'Rule 75' provision whereby employees can retire with normal pension benefits upon reaching any combination of age and years of service credit totaling 75. The Rule of 75 creates the opportunity for many individuals to retire at an age up to 10 years, or more, earlier than the standard retirement age of 60.
- **Free Health Care 'Tail.'** For decades, Milwaukee County included, as a retirement benefit, the provision of health care for employees with at least 15 years of service. Although the free health care benefit was eliminated for County employees hired as of January 1, 1994, the financial impact of the resulting 'tail' of currently eligible retirees and pre-1994 hires is substantial.

- **Medicare Coordination of Benefits.** When County retirees reach Medicare eligibility age (currently 65), the County pays their monthly premium fee for Medicare enrollment. At that point, Medicare becomes the primary insurer and Milwaukee County becomes the secondary insurer, at a substantial savings to the County.

Nature of Milwaukee County Health Care Costs

Hospital Charges

Since hospital charges comprise the single largest cost component, nearly 44% of total Conventional Plan expenditures, the pattern of provider choices made by members is an important factor influencing Milwaukee County's overall health care costs. Milwaukee County employees and retirees have, through their health care provider choices, made Aurora Health Care system facilities the dominant player affecting Milwaukee County Conventional Plan health care costs. Additional information gleaned from the 2003 data include the following:

- Aurora facilities account for 39.5% of the total covered hospital charges for Milwaukee County Conventional Plan enrollees, through either the Humana PPO network (31.1%) or its own Aurora Direct EPO network (8.4%).
- These same Aurora facilities account for 47.2% of total Milwaukee County Conventional Plan hospital payments.
- The overall higher costs to the County reflected in the above statistics result from Aurora hospitals offering the County comparatively low discounts, in relation to other area hospitals, in the much more heavily utilized Humana PPO network. Even though the same Aurora facilities are providing the same services to the same Milwaukee County client base, Aurora's PPO discounts average less than one-third those it provides Milwaukee County in exchange for its exclusive arrangement in the Aurora Direct EPO network.

The significant disparity in discounts offered by Aurora system facilities under the two networks that comprise Milwaukee County's Conventional Health Care Plan suggest two options to reduce County health care costs: either influence members to enroll in the Aurora Direct EPO plan option to take greater advantage of the higher discount levels; or obtain much deeper discount levels from Aurora as a provider in the County's PPO network. In assessing these two options, County decision makers should take into consideration two important factors.

First, the nationwide scope of the Humana PPO network was a key factor in the County's ability to achieve health care cost savings in 2003. In contrast, the Aurora Direct EPO network is comprised of a relatively small number of local and regional facilities. Payment data shows that services rendered by out-of-network providers, offering no discounts to Milwaukee County, accounted for 17.8% of all paid hospital charges from 2003 claims paid through the Aurora EPO plan option. In comparison, services rendered by out-of-network providers represented just 4.9% of all paid hospital charges from 2003 claims paid through the Humana PPO plan option, a statistic that is all the more impressive given that virtually all retirees and their dependents residing outside the

Southeast Wisconsin area receiving County health care benefits are enrolled in the PPO plan option.

Another consideration that weighs heavily against a Milwaukee County strategy of encouraging greater numbers of plan participants to choose the Aurora Direct EPO option is the absence of all service-related deductibles and co-insurance obligations. Thus, the patient has no financial stake in his or her health care service decisions, and unlike the HMO option, where a third party assumes the financial risk of such decisions, in the EPO plan option, the County remains self-insured and pays the total cost of patients' health care service choices. The lack of patient deductible/co-insurance obligations defies conventional wisdom, which prescribes a personal financial stake in consumer health care choices to create an incentive to curtail costs. Whereas the capitated fee structure of the HMO option creates a financial incentive for the plan provider to minimize total costs, there is no such incentive present in the Aurora Direct EPO plan option. As such, we view that option as flawed from the County's perspective.

Cost of Non-Competitive Discounts

Should the County be successful in obtaining deeper discounts with Aurora for services provided and paid through the County's Humana PPO plan option, substantial savings would accrue without any changes in plan design or plan participant behavior. For instance, discounts offered to Milwaukee County EPO plan participants at Aurora's St. Luke's Regional Medical Center averaged 30%, as opposed to just 10% for services to Milwaukee County PPO plan participants at the same facility. If Aurora extended its deeper discount levels to PPO as well as EPO participants, we estimate Milwaukee County would have saved approximately \$1.7 million in 2003.

Physician Charges

In addition to the significant discrepancies in hospital provider discounts previously described, we reviewed discounts for services rendered by physicians. Although overall discounts achieved from physicians averaged approximately 32%, we found significant disparities in average discounts achieved among local physicians. For instance, the data shows that approximately 40% of local physicians rendered services with average effective discount rates of 15% or less, averaging just 11.5%. If this group of physicians provided discounts in line with the overall average of 32%, we estimate the County would have saved about \$600,000.

Plan Design Issues

Out-of-Pocket Expenses

In reviewing current industry literature and in discussion with health care cost consultants, a constant theme emerged: one important factor in controlling health care costs is the degree to which plan participants have a financial stake in the health care service choices they make. However, the great majority of both single and family plan participants in the Milwaukee County Conventional Health Care Plan did not approach the maximum cap limits on out-of-pocket expenses, excluding prescription drug co-pays, in 2003. Specifically, more than 90% of single plan participants paid \$500 or less in out-of-pocket deductibles and co-insurance payments subject to the maximum limit of \$1,500. Similarly, the data shows that more than 90% of family plan participants paid \$800 or less in out-of-pocket deductibles and co-insurance payments subject to the maximum family limit of \$2,500. Conversely, less than 10% of both single and family plan participants pay more than one-third of the applicable out-of-pocket maximum.

Applicability of Deductibles and Co-insurance Liabilities

In life-altering or life-threatening situations, such as emergency cardiac procedures or various cancer treatments, cost implications may not be a realistic consideration for health care consumers. However, there are many ancillary, discretionary and routine medical procedures that may be subject to much greater consumer scrutiny regarding necessity and cost.

For instance, we compared total charges submitted on claims by various providers, including physicians' offices, clinics and hospitals, for two standard regimens of blood specimen analyses. Based on claims paid in 2003, Milwaukee County was charged a variety of rates for these two procedures. For one procedure, payments ranged from under \$10 to \$109. For the other procedure, payments ranged from under \$10 to \$158. In many cases, the lower rates in these ranges are attributable to contracted rates with certain laboratory facilities, as opposed to individual doctors' offices. Under the Milwaukee County Conventional Plan, both the Humana PPO and Aurora Direct EPO, plan participants pay no portion of the cost of either the blood test noted above. Therefore, there is no personal financial stake to act as an incentive to reduce the total costs to Milwaukee County of \$141,000 for these two particular procedures. Under the County's current plan design, deductibles and co-insurance obligations apply to little more than physician office visits, office-based procedures and medical equipment.

Medicare Coordination of Benefits Issues

It has been suggested that the method by which Milwaukee County coordinates health care coverage with Medicare for eligible retirees does not properly obtain maximum benefits for the

County and may therefore be a potential source of significant additional savings. However, our review of 2003 claims data and procedures used by Humana, the County's Third Party Administrator, to implement Medicare COB suggests there is no such opportunity for significant additional savings.

County Practice Regarding Deductibles and Co-insurance

As currently applied, Milwaukee County uses a portion of the Medicare COB savings to pay all applicable deductible and co-insurance payments (excluding prescription drugs) on behalf of retirees aged 65+. An informal review of County ordinances by the County Corporation Counsel indicated that, because the County pays the Medicare premiums on behalf of retirees, it may be entitled to apply the benefits of coordination in any manner that does not detract from the retirees' benefit. Since the County has always applied health plan deductible and co-insurance obligations equally to employees and retirees under the age of 65, it would appear that the present method of Medicare COB provides superior benefit to retirees aged 65+. We estimate that, if current deductible and co-insurance obligations were applied to retirees aged 65+, it would have reduced County payments approximately \$885,000 in 2003. Further savings might occur, to the extent that deductibles and co-insurance payments have a deterrent effect upon utilization.

County Oversight of Program

As previously described, Humana, in its role as TPA, has responsibility for fulfilling its contractual obligations related to administration of the Milwaukee County Conventional Health Care Plan. However, the Division of Human Resources is ultimately accountable for monitoring Humana's performance, ensuring compliance with contract terms, and overall administration of the Milwaukee County employee health care benefit. While contract oversight is performed to some extent by Employee Benefits staff, a formalized oversight plan has not been developed, according to the Employee Benefits and Services Manager, due to the narrow window of time within which the health care contracts were finalized for 2003 and the limited staffing resources available in the employee benefits area to perform comprehensive contract oversight functions.

Wellness Initiatives

Studies have confirmed that a healthier workforce means a reduction in health care claims and other costs associated with poor health such as increased absenteeism and reduced productivity. Many studies also report that companies realize significant financial payback on expenditures incurred to improve the health of employees. Data suggests Milwaukee County could benefit from an aggressive wellness initiative. For 2003, just 4% of the plan participants filing claims (about 500 enrollees and dependents) accounted for 40% of the total health care costs.

Plan Member Education

One aspect of employee health that has received little attention but should be pursued because it can result in potential cost savings is County Health Care Plan participant communications. Currently, health care communication efforts are essentially limited to the dissemination of open enrollment information and responding to day-to-day questions posed by employees. However, much could be achieved through regular communications with plan participants. Plan participant communications could also be used to promote the benefits of participation in a disease management program, an area that can yield significant cost savings over time, particularly since prior County efforts in this regard have attracted only limited employee participation.

Effective administration of the Milwaukee County health care benefit could require additional resources. Although we did not conduct a staffing assessment of employee benefits function, we did make note of the magnitude of the operations over which a single manager has responsibility and the limited number of support staff available to that manager.

Potential Cost Containment Opportunities and Implementation Strategies

Recommendations to address the findings of our audit are presented throughout the report. **Section 5** of the report includes a summary of cost containment opportunities presented throughout the report, along with implementation strategies to take advantage of those opportunities. Some of those strategies include:

- ***Obtain labor/management buy-in to cost containment measures.*** Specifics as to implementation can be negotiated much more amicably once agreement in concept is reached as to overall strategies to help control overall costs.
- **Reduce current out-of-pocket maximum cap levels.** Since 90% of plan participants currently pay only about one-third of the out-of-pocket maximums, a strategy could be developed to increase the applicability of deductibles and co-insurance to raise the overall amount of revenue generated, but reduce the maximum cap levels so that the relatively small minority of individuals reaching the upper level of the current limits are afforded some relief. The goal of this strategy is not to merely shift health care costs from Milwaukee County to plan participants. Rather, it is to influence consumer behavior to reduce overall costs.
- **Create a Health Reimbursement Arrangement (HRA) or Health Savings Arrangement (HSA).** These pre-tax instruments provide a mechanism to help absorb some of the impact of increased out-of-pocket expenses.
- **Establish and promote a list of low-cost providers from which Milwaukee County Conventional Health Care Plan participants can choose.**

We would like to acknowledge the cooperation of the Department of Administrative Services and the County's Third Party Administrator, Humana, throughout the audit process. A management response from the Department of Administrative Services appears as **Exhibit 8**.

Background

The cost of health care in the United States is an issue of national importance that is of growing concern among decision makers at all levels of government. The federal General Accounting Office (GAO) has compiled a series of statistics and projections documenting the gravity of the nation's health care crisis. The following information was obtained from the GAO's presentation *HEALTH CARE SYSTEM CRISIS: Growing Challenges Point to Need for Fundamental Reform* at a health care forum held on January 13, 2004 and from the Centers for Medicare and Medicaid Services:

- Health Care System Challenges
 - With respect to health care, both the private and public sectors are losing ground in their efforts to balance competing goals of sustainable cost, broad access, and good quality.
- Despite containment efforts, health care spending continues to escalate:
 - National health expenditures have more than doubled since 1990, from about \$700 billion to nearly \$1.6 trillion in 2002.
 - Health expenditures continue to absorb a growing share of the national economy, from 7% of Gross Domestic Product (GDP) in 1970 to 14.8% in 2002.
- Out-of-pocket spending has declined as a share of total health care spending. *[Note: This statistic does not include premium payments.]*
 - 1962 = 46%
 - 1982 = 22%
 - 2002 = 13.7%

With regard to health care cost challenges, the GAO concluded that public obligations threaten future federal and state budgets as well as the long-term health of the economy. This same problem in Milwaukee County is particularly acute due to a convergence of several factors:

- A 2002 study by Mercer Human Resource Consultants noted that health care costs in Southeast Wisconsin are 55% higher than other Midwest metropolitan areas.
- Policymakers at Milwaukee County have chosen to honor a longstanding commitment to provide for the health care needs of the poor. Thus, with assistance from state and federal Title 19 funding, Milwaukee County has assumed financial responsibility for providing quality health care to its uninsured 'medically indigent' residents through the General Assistance Medical Program (GAMP).

- For decades, Milwaukee County included, as a retirement benefit, the provision of health care for employees with at least 15 years of service. Although this benefit has been eliminated for employees hired after 1993, the liability for this benefit will continue to grow for many years. At year-end 2003, there were approximately 6,650 retirees and their dependents receiving Milwaukee County health care coverage by virtue of this benefit.
- In conjunction with the elimination of the retirement health care benefit for employees hired after 1993, Milwaukee County created a 'Rule of 75' provision whereby employees could retire with normal pension benefits upon reaching any combination of age and years of service credit totaling 75. This feature, effective January 1, 1994, had the additional effect of creating a class of relatively young retirees covered by the County's health care plan, but not yet eligible for Medicare. This early retirement provision adversely affects County health care costs, because it is not until reaching the age of 65 that retirees enroll in Medicare and the County realizes substantial health care cost savings through Coordination of Benefits (COB) with Medicare.

In light of the increasing pressure of health care costs on the County budget, at its meeting on October 30, 2003, the Milwaukee County Board of Supervisors passed a Resolution [File No. 02-503(a)(p)] authorizing and directing the Director of Audits "...to initiate a formal audit of the employee health care benefit for the purpose of identifying additional insights and potential efficiencies regarding employee and retiree health care costs."

Milwaukee County's contract with its largest employee bargaining unit, District Council 48 of the Association of Federal, State, County and Municipal Employees, contains a provision requiring any health care cost reduction initiative to be approved by a joint Labor/Management Health Care Cost Containment Committee. Therefore, the recommendations contained in this report are generally addressed to the Department of Administrative Services (DAS), which includes the Division of Human Resources, in cooperation with the joint labor/management committee.

A glossary of health insurance terms appears as **Exhibit 2**.

Milwaukee County Health Care Plan Basics

Milwaukee County provides health care to employees and eligible retirees via a health care plan with three major options. Coverage is provided at a monthly premium cost to employees of \$80/single and \$100/family. Eligible retirees pay no monthly premiums; the County pays a monthly Medicare premium of \$66.60 for each covered retiree, thus making Medicare the primary insurer and achieving cost savings by virtue of Coordination of Benefits in a secondary insurer role. A more comprehensive description of the benefits and deductible/co-insurance structures of the three Milwaukee County health care options is presented as **Exhibit 3**. Following is a brief overview of the three options available to Milwaukee County Health Care Plan participants.

- **Humana HMO.** One option is a fully insured Health Maintenance Organization (HMO) plan provided by Humana. Under the HMO option, employees and retirees are restricted to care from a network of Humana providers but have no medical deductibles or co-pays and very low prescription co-pays. At year-end 2003, there were approximately 8,400 employees, retirees and dependents enrolled in the HMO plan option, at a 2003 cost to the County of \$26 million.
- **Humana PPO Network (Conventional Plan).** A second health care option is the County's Conventional Plan, administered by Humana. Under this plan, employees and retirees can choose any provider but have certain medical deductibles, co-insurance and prescription co-pays that are substantially higher than under the HMO option. Under the conventional plan, participants can reduce their deductibles and co-pays by limiting their choice of providers within the Humana Preferred Provider Organization (PPO) group. Humana provides the cost controls and provider discounts to help reduce costs to employees and the County for the self-funded plan. At year-end 2003, there were approximately 11,200 employees, retirees and dependents enrolled in the Conventional Plan PPO option. Claims processed and paid by the County for this option in 2003 totaled approximately \$43.1 million.
- **Aurora Direct EPO Network (Conventional Plan).** A third option, available to employees and eligible retirees beginning in 2003, is a hybrid plan that matches the benefits and deductible/co-pay structure of the Humana HMO option, but is financed on the same self-funded, fee-for-service basis as the conventional plan. Under this option, employees and retirees are restricted to the Aurora Exclusive Provider Organization (EPO) network of health care facilities and providers. At year-end 2003, there were approximately 700 employees, retirees and dependents enrolled in the Conventional Plan EPO option. Claims processed and paid by the County for this option in 2003 totaled approximately \$5 million.

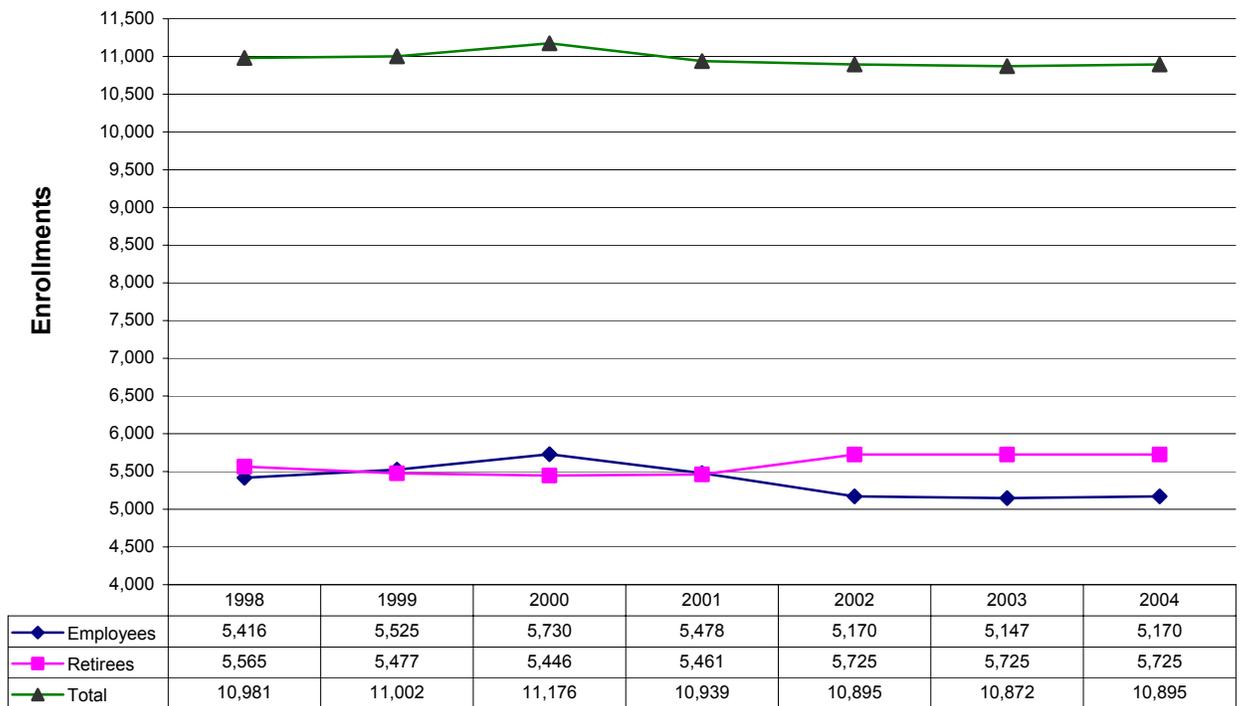
Historical Trends

Following is a presentation of several historical trends relative to the Milwaukee County health care benefit.

Enrollments

Figure 1 shows the total number of employees and retirees enrolled in Milwaukee County's health care plan has remained relatively stable during the past seven-year period, with approximately 10,900 enrollees (excluding dependents).

**Figure 1
Average Enrollment, Milwaukee County Health Care Plan
1998--2004**



Note: Enrollment figures do not include dependents.

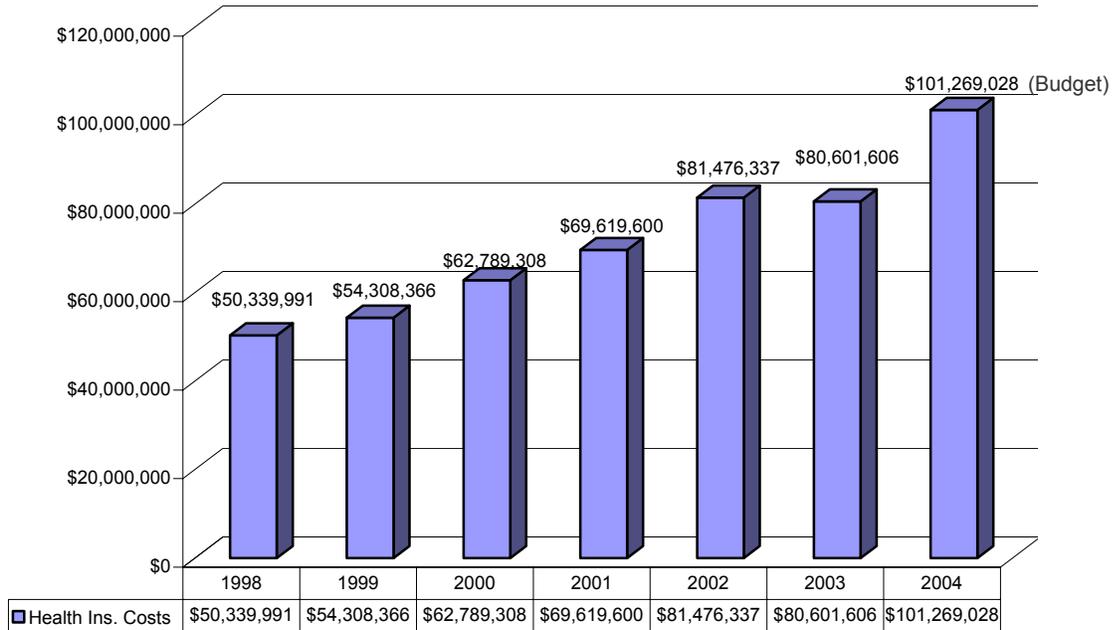
Source: Department of Administrative Services.

Reliable data on the total number of dependents was not available for each of the years included in **Figure 1**. However, for year-end 2003, dependents of employees and retirees boosted the total number of plan members covered by the Milwaukee County health care benefit to approximately 20,300.

Total Costs

The explosion in health care costs in recent years is the precipitating factor in the County Board of Supervisors' interest in this audit. As shown in **Figure 2**, total health care costs have increased dramatically since 1998.

**Figure 2
Total Cost of Milwaukee County Health Care Plan
1998-2004**

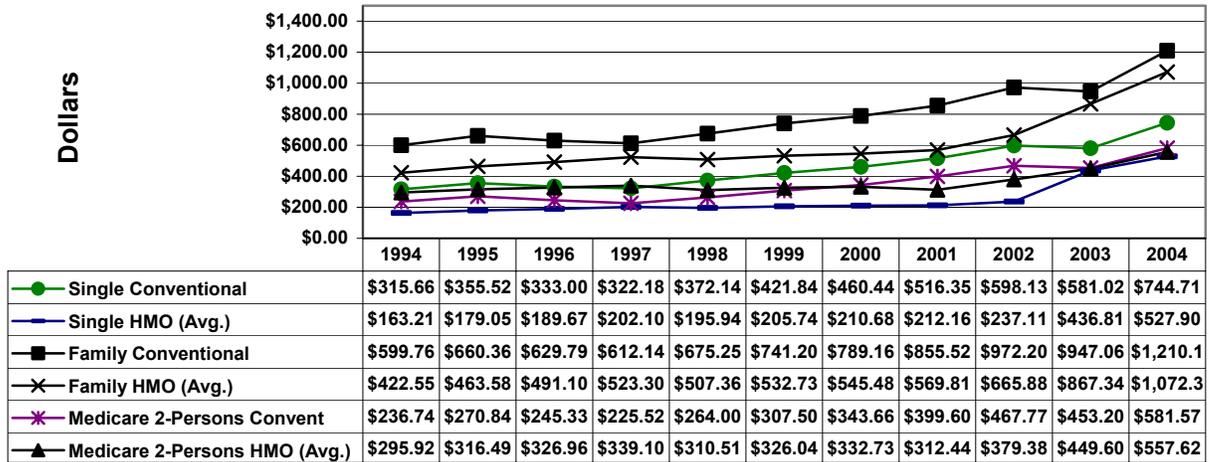


Source: Milwaukee County Accounts Payable Records and 2004 Adopted Budget.

County Premiums

When an individual purchases private health insurance, they pay a monthly premium established by either an insurance agency or a health care provider that is designed to create sufficient cash flow to pay all covered health care costs, administrative fees, including profits, and some type of risk reserve or line of credit to cover unanticipated expenses. When an employer provides a health care benefit, the entire cost of the benefit typically is not passed on to the employee in the form of a fully loaded premium. Rather, there is a cost sharing between the employer and the employee. The County establishes an estimated monthly premium amount for three classes of plan participants: HMO members, Conventional Plan members and Conventional Plan retirees eligible for Medicare. The HMO premium is the cost per member per month that the County pays to its contracted HMO provider. The Conventional Plan premiums are based on estimated enrollments and actuarial projections of health care costs. **Figure 3** shows these premium levels from 1994—2004.

Figure 3
Milwaukee County Health Care Plan
Monthly Premium Amounts
1994-2004



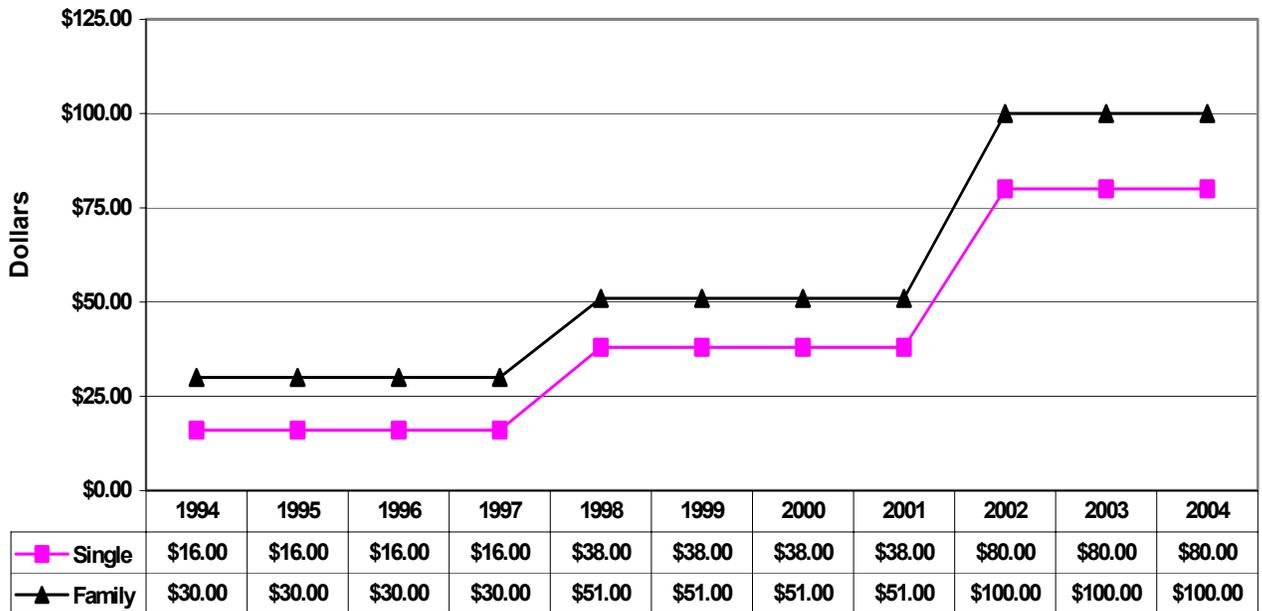
Note: HMO figures reflect blended rates in years when more than one HMO was available.

Source: Milwaukee County Benefits Booklets.

Employee Premium Payments

Figure 4 shows the level of monthly premium contribution payments made by County employees during the past eleven years.

Figure 4
Milwaukee County Employee
Monthly Premium Levels
1994-2004



Source: Milwaukee County Benefits Booklets.

As depicted in **Figure 4**, employee monthly premium payments (which are collected on a pre-tax basis) have been raised twice during the past 11 years, from \$16/\$30 (Single/Family) in 1994 to \$38/\$51 in 1998 and to \$80/\$100 in 2002.

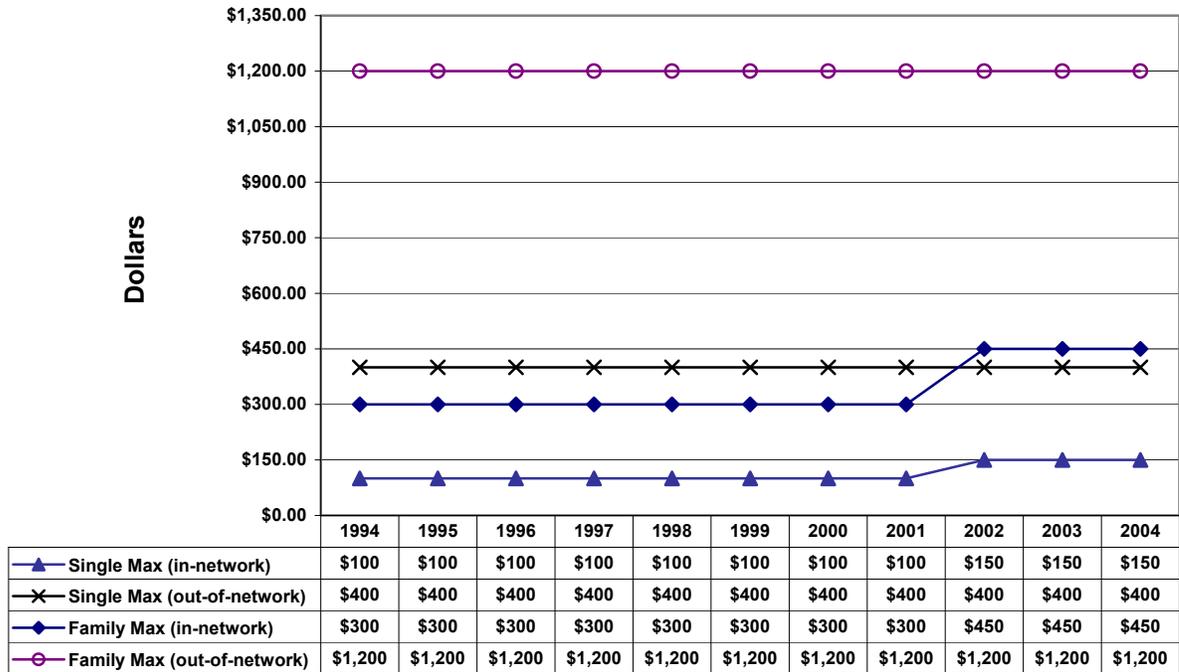
According to a 2003 Kaiser Family Foundation / Health Research and Educational Trust survey (Kaiser Survey), the average annual premium cost for a single health care plan was \$3,383 and the employee paid \$508 (about 15%) of this amount. The average family plan cost \$9,068 and the employee premium share was \$2,412 (approximately 27%). Comparable data for Milwaukee County for 2003 shows that the average premium for single coverage was \$6,972 with the employee contributing \$960 (approximately 13.8%) toward this cost and cost of premiums for family coverage was \$11,364 of which the employee paid \$1,200 (10.6%).

Deductibles

Deductibles are the amounts that patients must pay directly to providers each year, before an insurance plan begins paying for benefits. As previously noted, Milwaukee County's HMO and Aurora Direct EPO plan options require no annual patient deductibles. **Figure 5** shows that annual

deductibles for physicians' charges in the PPO option have remained fairly stable during the past 11 years, with just one increase during that time period. In 2002, the in-network deductible limits were raised \$50 per plan participant, establishing the deductibles at their current rates of \$150/\$400 (in-network/out-of-network) for single coverage enrollee; the same rates applied for each covered individual with family coverage, but with a \$450/\$1,200 per family maximum.

Figure 5
Milwaukee County Conventional Health Care Plan
Annual Employee Deductible Accounts
1994-2004



Years 1994-2004

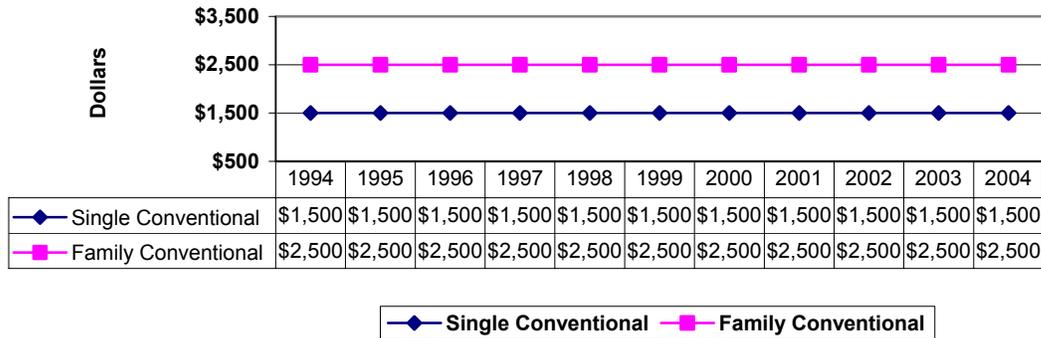
Source: Milwaukee County Benefits Booklets .

Similarly, deductibles applicable to all other major medical benefits have remained constant at \$150/Single \$450/Family maximum during the past decade.

Co-insurance Obligations

An additional out-of-pocket expense for plan participants is the co-insurance obligation assessed for certain services. These amounts are applied after meeting any applicable deductibles and are generally applied at the rate of 10% of approved charges for services from in-network providers; 20% of approved charges for services from out-of-network providers. **Figure 6** shows the maximum caps established for co-insurance obligations under the Milwaukee County Conventional Health Care Plan during the past 11 years.

Figure 6
Milwaukee County Conventional Health Care Plan
Maximum Employee Co-Insurance Obligations
1994-2004



Source: Milwaukee County Benefits Booklets.

As was the case with annual deductibles, maximum caps on plan participant co-insurance obligations have remained unchanged during the period 1994—2004, with a cap of \$1,500 for single plan members and \$2,500 per family.

Co-Payments

Co-payments represent costs borne by plan participants without regard to deductibles. Co-payment obligations may be assessed on either a flat fee or a percentage basis. For instance, in the Milwaukee County Conventional Plan Humana PPO option, there is a \$100 co-payment for inpatient hospitalizations (the amount can be waived if the hospitalization is pre-authorized and within the PPO network). Drug co-payments are generally 10%-20% for generic/brand name drugs, with the patient paying the difference if generics are available. There is a flat \$3 minimum and \$75 maximum per prescription.

Division of Human Resources Staffing

The Employee Retirement System/Benefits Office within the Division of Human Resources administers the County's employee health and dental care plans as well as other benefits available to employees and retirees. Total staffing in the benefits area consists of a manager, who splits his time with retirement system operations, and three support staff. Although occasional assistance is provided from other employees, only the manager (on a part-time basis) and two full-time staff are committed to administration of the health and dental care plans.

Section 1: 2003 Health Care Cost Reduction Plan

Prior to 2003, Milwaukee County provided health care to employees and eligible retirees via a health care plan with two major options. One option was a fully insured Health Maintenance Organization (HMO) plan, most recently provided by Humana. The other option was a self-funded conventional plan administered by Wisconsin Physicians' Service (WPS). Under the HMO option, employees and retirees were restricted to care from a network of Humana providers but had no medical deductibles or co-insurance obligations and very low prescription co-pays. Under the conventional plan, employees and retirees could choose any provider but had certain medical deductibles and co-pays and prescription co-pays that were substantially higher than under the HMO option. Under the conventional plan, participants could reduce their deductibles and co-pays by limiting their choice of providers to the Health Care Network (HCN) group. HCN provided the cost controls and provider discounts to help reduce costs to employees and the County for the self-funded plan. For many years prior to 2003, WPS acted as the bill-paying agent for the County under the self-funded plan.

In July 2002, having received firm bids with a first-year increase ranging from 24.1% to 53%, DHR obtained authorization to reject all bids and proceed with a strategy of direct negotiations for health care services.

In April 2002, the Division of Human Resources (DHR) held preliminary discussions with Humana regarding a potential extension of its one-year contract for HMO services, which was scheduled to expire December 31, 2002. Unable to arrive at mutually agreeable terms, DHR initiated a Request for Proposal (RFP) process. In July 2002, having received firm bids with a first-year increase ranging from 24.1% to 53%, DHR obtained authorization from both the Subcommittee on Employee Insurance & Benefits and the Personnel Committee to reject all bids and proceed with a strategy of direct negotiations for health care services.

2003 Health Care Cost Reduction Plan

The 2003 budgeted figure represented a projected reduction, or 'savings' of \$10 million in comparison to earlier estimates for 2003.

The 2003 Adopted Budget included \$80.6 million for fringe benefit health care, an increase of \$3.4 million (4.5%) over the 2002 budgeted amount. (In retrospect, the 2003 budgeted amount represented a *decrease* of \$875,000, or 1.1%, from 2002 actual health care expenditures.) The 2003 budgeted figure represented a projected reduction, or 'savings' of \$10 million in comparison to earlier DHR estimates for 2003. The \$10 million cost reduction was projected as a result of a Health Care Cost Reduction Plan tentatively developed by DHR through the direct negotiation process. Based on various assumptions and tentative agreements in concept with two health care providers, DHR received independent validation of the \$10 million cost reduction estimate by Milliman USA, an actuarial firm with expertise in the health care field.

Under the 2003 Health Care Cost Reduction Plan, County employees and retirees were afforded three plan options:

- Humana HMO fully insured plan. Same benefit levels as previously provided.
- Humana Preferred Provider Option (PPO) self-insured plan. Same benefit levels as previously provided by the County Conventional Plan administered by WPS. It was anticipated that better discounts could be achieved under Humana's nationwide PPO for retirees at out-of-state locations. In addition, Humana was able to procure greater discounts from providers in Southeastern Wisconsin, as a result of its HMO arrangements, and greater discounts on prescription drug costs.
- Aurora Direct Exclusive Provider Option (EPO) self-insured plan. Same benefit levels as the Humana HMO plan. This would achieve deeper discounts for the County and better benefit levels for participants than the conventional plan, but would restrict participants to the Aurora Family Network of facilities and medical personnel.

The plan included a three-year contract with the providers, with Humana HMO committing to a 12% premium increase for 2003 (with an additional adjustment of up to 7% to 2004 premiums as

a retroactive 2003 premium adjustment if warranted by 2003 experience); a 27% maximum increase for 2004 and a 27% maximum increase for 2005, all based on the previous year's experience.

Actual 2003 Health Care Cost Experience

Milwaukee County's total employee and retiree health care expenditures of \$84.9 million for 2003 exceeded budget by about 5.3%. However, this budgetary deficit does not necessarily mean that the \$10 million of anticipated savings associated with adopting the 2003 Health Care Cost Reduction Plan were not achieved. This is because the \$10 million savings estimate was based on a projected total for the County's health care costs, assuming no cost reduction changes were implemented.

To estimate the true savings of those changes, we compared the County's actual 2003 health care cost experience against a projected hypothetical cost for the same services had they been rendered without the benefit of:

We compared the County's actual 2003 health care cost experience against a projected hypothetical cost for the same services had they been rendered without the changes incorporated in the 2003 Health Care Cost Reduction Plan.

- The lower capitated premium rate obtained from Humana for 2003 HMO services. We estimate actual savings attributable to this component for 2003 is \$3,043,000. It should be noted, however, that approximately \$1.6 million is potentially due Humana in the form of a 2003 retroactive rate increase, based on actual 2003 HMO cost experience.
- The superior provider discounts negotiated by Humana, as the new Third Party Administrator (TPA), as compared to WPS and the greater geographic reach of the Humana PPO network in comparison to WPS, as well as greater discounts provided by Aurora facilities through the Aurora Direct EPO plan option. We estimate the actual savings attributable to this component for 2003 is \$3,246,000.
- Improved discounts on prescription drug costs resulting from Humana's network of preferred pharmacies. Our estimate of actual savings from improved prescription drug discounts is \$1,140,000.

Thus, we estimate the total savings attributable to the above components of the Health Care Cost Reduction Plan was approximately \$7,429,000.

When the Health Care Cost Reduction Plan was proposed, it included in its estimated \$10 million savings the elimination of contracts for specific programs such as disease management, case management and utilization review. The County was able to eliminate the contracts because those services were included in the administrative fee paid to Humana. Elimination of those contracts accounted for approximately \$742,000 of the projected savings. However, all but about \$220,000 of this amount was offset by the need to pay an additional administrative fee for 'run-out' claims (those claims 'in the pipeline' that had to be processed by the prior TPA, necessitating the payment of two administrative fees simultaneously).

Taking these factors into account, we estimate that implementation of the 2003 Health Care Cost Reduction Plan saved Milwaukee County approximately \$7.6 million.

Section 2: Comparison with Other Jurisdictions

We obtained information from the City of Milwaukee, Milwaukee Public Schools and the State of Wisconsin for purposes of making a general comparison of the employee health care benefit.

Plan Design Comparisons

We obtained information from the City of Milwaukee, Milwaukee Public Schools (MPS) and the State of Wisconsin for purposes of making a general comparison of the employee health care benefit provided to each of these public entities with a large number of employees. Each of these jurisdictions provide health care benefits to active and retired employees. The number of choices offered varies, but each offers at least two different types of plans. The State of Wisconsin offers two HMOs, in addition to its plan, but for comparison purposes we will use the one most widely used.

Employee Contribution to Monthly Premium

When an employer provides a health care benefit, the entire cost of the benefit typically is not passed on to the employee in the form of a fully loaded premium. Rather, there is a cost sharing between the employer and the employee. **Exhibit 4** compares the monthly premiums and employee share for both active and retired employees. **Table 1** below compares the monthly premiums along with the employees' contribution for active single and family employees.

Table 1
Comparison of Monthly Premium Contributions
By Active Employee for Large Jurisdictions

	<u>HMO</u>		<u>PPO</u>		<u>EPO</u>	
	<u>Total Premium</u>	<u>Employee Share</u>	<u>Total Premium</u>	<u>Employee Share</u>	<u>Total Premium</u>	<u>Employee Share</u>
Single Coverage:						
Milwaukee County	\$358.37	\$80.00	\$744.71	\$80.00	\$697.42	\$80.00
City of Milwaukee	336.43	0.00	520.89	50.00	N/A	N/A
Milwaukee Public Schools	N/A	N/A	612.02	0.00	404.11	0.00
State of Wisconsin	423.61	18.00	672.70	100.00	N/A	N/A
Family Coverage:						
Milwaukee County	\$1,003.33	\$100.00	\$1,210.12	\$100.00	\$1,141.28	\$100.00
City of Milwaukee	918.45	0.00	1,244.59	100.00	N/A	N/A
Milwaukee Public Schools	N/A	N/A	1,353.16	0.00	1,060.43	0.00
State of Wisconsin	1,041.28	45.00	1,622.90	250.00	N/A	N/A

Source: Information obtained from jurisdictions by the Department of Audit.

As this **Table 1** shows, Milwaukee County employees pay more toward their HMO plan than the other three jurisdictions. They are in the middle for the PPO plan, and higher than MPS employees, who pay nothing, for EPO coverage.

The same does not hold true for its retirees. While each of the other jurisdictions require contributions for premiums from its retirees, Milwaukee County's retirees hired before 1994 with 15 years of service pay nothing for health care premiums. This benefit has been eliminated. Persons hired beginning in 1994 that retire and choose to purchase County health care coverage are responsible for the full monthly premium. However, depending on union representation employees can use all, or in some cases a portion of, their accumulated sick leave balances to pay for the cost of monthly insurance until it is exhausted. This approach is similar for State of Wisconsin retirees. It will be several years before the impact of that change will be felt.

The following sections discuss and compare out-of-pocket costs incurred by plan members for each jurisdiction. These generally relate to plan deductibles, co-insurance or co-payment amounts

for specific covered services, and co-payments for prescription drugs. It should be noted that the significance of differences in any of these specific costs can be lost if the overall out-of-pocket limit is easily reached. For example, placing a high co-insurance requirement on a specific service to reduce its usage will be unsuccessful if the service will be paid in full after reaching a relatively low out-of-pocket limit.

Annual Deductibles

Deductibles generally are not applied for HMO plans, which is consistent with the HMO plans reviewed. Though not included in our comparisons, we noted that the State of Wisconsin does require a deductible of \$100 for single coverage and \$300 for family coverage under the State Maintenance Plan HMO, used in the less populated areas of the State.

The County's PPO plan deductible of \$150 per person, with a maximum of \$450 for family coverage, was the highest of the four entities.

The County's PPO plan requires that a deductible of \$150 per person, with a maximum of \$450 for family coverage, be met for services provided inside the network. These were the highest of the four entities. These deductibles increase to \$400 and \$1,200 if services are obtained outside the network of providers. As shown on **Table 2**, the \$1,200 family deductible was the highest, with the \$400 per person deductible second only to the State of Wisconsin.

**Table 2
Comparison of Plan Deductibles for PPOs
For Large Jurisdictions**

	<u>Milwaukee County</u>	<u>City of Milwaukee</u>	<u>MPS</u>	<u>State of Wisconsin</u>
HMO				
Single	\$0	\$0	N/A	\$0
Family	0	0	N/A	0
PPO – In Network				
Single	\$150	\$100	\$0	\$100
Family	450	300	0	200
PPO – Out-of-Network				
Single	\$400	N/A	\$100	\$500
Family	1,200	N/A	300	1,000
EPO				
Single	\$0	N/A	\$0	N/A
Family	0	N/A	0	N/A

Source: Information obtained from jurisdictions by the Department of Audit.

Among the four jurisdictions there was little difference in the percentage of co-insurance required from employees.

Co-insurance/Co-payments

Each plan has subtle differences when it comes to financial treatment of specific services. But with the four jurisdictions there was little difference in the percentage of co-insurance required from employees. Generally, employees enrolled in HMOs paid nothing for covered services. For PPOs, there were some minor variations in the co-insurance rates when services were obtained from either in or out of the network. For some services provided inside the network, Milwaukee County has a 10% co-insurance requirement. By comparison, the City of Milwaukee has a co-insurance rate of 20%, and MPS and the State have none. Outside of the PPO network, the County's co-insurance rate is 20%, as is MPS and the State. There are no network restrictions with the City of Milwaukee's PPO plan.

Plans can be designed to steer employees away from high cost services. For example, use of an emergency room for non-emergency situations can be very expensive. Imposing a significant co-payment can help curb such usage.

We reviewed the plans to see what specific items contained significant co-payment or co-insurance charges. The only significant service of this nature involved emergency room usage, where MPS imposes a charge of \$25 for non-emergency use of emergency rooms for its EPO participants, and a 20% or 50% co-insurance charge under its PPO plan, depending on whether the emergency room was in or out of the preferred provider network. Similarly, the State’s HMO plan includes a \$40 emergency room co-payment.

Jurisdictions can establish an overall limit on the amount of out-of-pocket money that persons must pay for deductibles, co-insurance and co-payments.

Out-of-Pocket Limits

Jurisdictions can establish an overall limit on the amount of out-of-pocket money that persons must pay for deductibles, co-insurance and co-payments. **Table 3** shows, out-of-pocket expense limits for the four jurisdictions. Of interest is the unlimited nature of out-of-pocket expenses for the City of Milwaukee’s PPO.

Table 3 Comparison of Out-of-Pocket Expense Limits For Active Employees for Large Jurisdictions				
	<u>Milwaukee County</u>	<u>City of Milwaukee</u>	<u>MPS</u>	<u>State of Wisconsin</u>
HMO				
Single	N/A	N/A	N/A	N/A
Family	N/A	N/A	N/A	N/A
PPO – In Network				
Single	\$1,500	Unlimited	\$850	\$100
Family	2,500	Unlimited	1,800	200
PPO – Out-of-Network				
Single	\$1,500	N/A	\$850	\$2,000
Family	2,500	N/A	1,800	4,000
EPO				
Single	N/A	N/A	N/A	N/A
Family	N/A	N/A	N/A	N/A

Source: Information obtained from jurisdictions by the Department of Audit.

For Milwaukee County, there is no specific annual cap on out-of-pocket expenditures for prescription drugs.

Prescription Drugs

Co-payments for prescription drugs may or may not be subject to a maximum out-of-pocket limit, depending on plan design. For Milwaukee County, there is no specific annual cap on out-of-pocket expenditures for prescription drugs, nor do such payments fall under the County’s overall out-of-pocket limit of \$1,500 and \$2,500. The County has a maximum per prescription charge of \$75 for persons in the PPO. The State of Wisconsin, however, does have annual limits of \$300 for single persons and \$600 for family participants in its HMO plan. The limits increases to \$1,000 and \$2,000 for its PPO plan. **Table 4** summarizes the prescription co-payments amounts.

**Table 4
Comparison of Prescription Drug Co-Payments
For Active Employees for Large Jurisdictions**

	<u>Milwaukee County</u>	<u>City of Milwaukee</u>	<u>MPS</u>	<u>State of Wisconsin</u>
HMO				
Generic	\$ 5	\$ 4	N/A	\$ 5
Brand Name	10	8	N/A	15
Non-Formulary	25	N/A	N/A	35
PPO – In Network				
Generic	10%	20%	10%	\$ 5
Brand Name	20%	20%	10%	15
Non-Formulary	N/A	20%	10%	35
PPO – Out-of Network				
Generic	N/A	N/A	20%	\$ 5
Brand Name	N/A	N/A	20%	15
Non-Formulary	N/A	N/A	20%	35
EPO				
Generic	\$ 5	N/A	10%	N/A
Brand Name	10	N/A	10%	N/A
Non-Formulary	25	N/A	10%	N/A

Note – If generic equivalent is available, employee pays the difference in the cost between the two drugs.

Source: Information obtained from jurisdictions by the Department of Audit.

We conducted a statewide survey of Wisconsin's 71 counties.

Statewide Survey

In addition to the plan comparisons previously described, we conducted a statewide survey of Wisconsin's 71 other counties to compare what covered employees contributed to their health care costs in terms of monthly premiums, annual deductibles, co-insurance and/or co-payments for medical services, co-payments for prescription drugs, and maximum caps on out-of-pocket expenditures. Overall, 57 counties responded to our survey (80%). As counties often provide benefits to its employees that vary based on bargaining units, we requested that counties respond with data representing the majority of employees, usually the largest union in the county. **Exhibits 5-7** provide details of this survey.

Responding counties offered the following types of health care plans:

- HMOs (21 counties).
- PPOs (41 counties). This includes one county (Oneida) that offers an indemnity plan very similar to a PPO, but differs somewhat in how bills are paid.
- Point-of-Service plans (four counties). This type of plan is similar to a HMO, but allows participants to go outside the network.

Eight counties offered more than one of the above plans, similar to Milwaukee County. The following subsections discuss the results of our survey of other Wisconsin counties. Milwaukee County coverages are detailed separately for comparison purposes.

Employee Contributions Toward Monthly Premiums

Of the 57 counties responding, only eight did not require some amount of a monthly employee contribution toward health care premiums. Seven other counties did not charge a premium for single coverage, but did charge a premium to its family plan participants.

In some cases, the responding counties reported the employee contribution to premiums as a percentage of the total health care premium, ranging from 5% to 15%. The following statistical analyses reflect only those counties reporting contributions as a dollar amount. **Table 5** compares summary monthly premium survey data with Milwaukee County.

	Milwaukee County	<u>Survey Results</u>			
		<u>Maximum</u>	<u>Minimum</u>	<u>Average</u>	<u>Median</u>
HMO – Single	\$80.00	\$65.18	\$0.00	\$20.61	\$16.58
HMO – Family	\$100.00	\$161.22	\$0.00	\$61.19	\$45.00
PPO – Single	\$80.00	\$474.52	\$0.00	\$39.79	\$25.00
PPO – Family	\$100.00	\$1,048.85	\$0.00	\$112.65	\$90.85

Source: Results of survey conducted by Department of Audit.

HMO Premiums

HMO Single Coverage (Milwaukee County - \$80)

- In 8 of 21 counties (38%), single participants pay no premium for HMO coverage.
- In the remaining 13 counties (62%), employees make contributions toward the monthly premium. In one of these counties, the contribution represented a percentage (15%) of the total premium. In the 12 other counties the contribution was reported as a dollar amount, ranging from \$11.62 to \$65.18. The average contribution for the 12 counties requiring single employees to make a contribution is \$34.35.

HMO Family Coverage (Milwaukee County - \$100)

- In five of 21 counties (24%), employees selecting family coverage make no contributions for health care premiums. In three counties (Grant, Lafayette, and Pepin), single employees received free coverage while families contribute to monthly premiums.
- In the remaining 16 counties (76%), employees make contributions toward the monthly premium. In two counties

The average contribution for the 12 counties requiring single employees to make a contribution is \$34.

the contribution represented a percentage of the total premium. In 14 others the contribution was a flat amount, ranging from \$30.21 to \$161.22. The average contribution for the 14 counties requiring employees with families to make a contribution is \$83.05.

PPO Premiums

PPO Single Coverage (Milwaukee County - \$80)

- In nine of 41 counties (22%), single employees pay no premium for PPO coverage.
- In the remaining 32 counties (78%), employees make contributions toward the monthly premium. In two cases the contribution was reported as a percentage of the total premium, 10% and 15%. In the remaining 30 counties the contribution was reported as a dollar amount, ranging from \$9 to \$474.52. The average contribution for these counties requiring single employees to make a contribution is \$55.59, with a median of \$25.00.

PPO Family Coverage (Milwaukee County - \$100)

- In three of 41 counties (7%), employees electing family PPO coverage make no contributions for health care premiums. In six counties (Buffalo, Dane, Douglas, Kewaunee, Pepin, and Vilas), single employees paid nothing for premiums while family coverage required a monthly contribution towards the premium.
- In the remaining 38 counties (93%), employees make contributions toward the monthly premium. Three counties reported their employees' contribution as a percentage of the total premium, either 10% or 15%. In the remaining 35 counties the contribution was reported as a dollar amount, ranging from \$20.40 to \$1,048.85. The average contribution for the 35 counties requiring employees with families to make a contribution is \$132.79.

The average contribution for the 35 counties requiring employees with families to make a contribution is \$133.

Annual Deductibles

Deductibles represent the amount that employees pay annually for specific care provided under the health care benefits before insurance kicks in.

The deductible is generally smaller if employees use a preferred provider in a PPO network. Milwaukee County, like most other employers, does not require its employees to pay a deductible

for HMO coverage. This was consistent with survey results, which showed that all but one of 21 counties offering HMOs required no annual deductibles for employees having single or family coverage. In Rusk County, deductibles for HMO coverage are \$100 for single coverage and \$300 for family coverage.

PPO Deductibles

Table 6 summarizes the survey results for counties offering a PPO option:

Table 6 Wisconsin Counties Annual Deductibles					
	Milwaukee County	<u>Survey Results</u>			
		<u>Maximum</u>	<u>Minimum</u>	<u>Average</u>	<u>Median</u>
PPO - In Network:					
Single	\$150	\$500	\$0	\$179	\$175
Family Maximum	\$450	\$1,000	\$0	\$405	\$400
PPO – Out of Network:					
Single	\$400	\$1,000	\$0	\$372	\$350
Family Maximum	\$1,200	\$2,200	\$0	\$803	\$750
Source: Results of survey conducted by Department of Audit.					

PPO Annual Deductibles In-Network for Single Coverage (Milwaukee County - \$150)

Of the counties offering PPO coverage, the deductibles for using in-network providers ranged from \$0 to \$500 per person, with an average of \$179. Since averages can sometimes be misleading, we also computed the median (midpoint) for additional comparison purposes. For this group the median was \$175, which puts Milwaukee County under both the average and median point.

PPO Annual Deductibles In-Network for Family Coverage
(Milwaukee County - \$450)

Responses ranged from \$0 - \$1,000, with an average of \$405 and a median of \$400, putting the County over both.

PPO Annual Deductibles Out-of-Network for Single Coverage
(Milwaukee County - \$400)

Responses again ranged from \$0 - \$1,000, with an average of \$372 and a median of \$350, putting the County over both.

PPO Annual Deductibles Out-of-Network for Family Coverage
(Milwaukee County - \$1,200)

Responses ranged from \$0 - \$2,000, with an average of \$803 and a median of \$750, putting the County over both.

Co-insurance

Once a deductible is reached, employees are often required to pay a portion of medical costs above and beyond the deductible. Referred to as co-insurance, it is generally applied as a percentage to the medical charges. Generally there is a limit to the amount that an employee must pay, after which the plan pays 100% of the remaining charges.

Co-insurance is generally applied for some services provided in a PPO network, though HMOs also can require co-payments for specific services. The amount of the co-insurance percentage and/or co-payment requirements, and the associated limits typically double or triple if participants choose doctors or services outside the provider network. This is done to encourage employees to use services which are less costly to the plan. Generally, co-payments for prescription drugs are not applied to the co-insurance limit. However, depending on the plan design, prescription co-payments can be subject to an overall limit on out-of-pocket costs that also includes deductibles and co-

The amount of the co-insurance percentage and/or co-payment requirements, and the associated limits typically double or triple if participants choose doctors or services outside the provider network.

insurance. It is important to note that the co-insurance maximums noted for Milwaukee County in the following analysis also include amounts paid for deductibles. Thus, the maximum out-of-pocket costs to participants for both deductibles and co-insurance is \$1,500 for single coverage and \$2,500 for family coverage.

Table 7 summarizes our survey results relating to co-insurance.

Table 7					
Wisconsin Counties					
Annual Co-Insurance Limits					
	Milwaukee County	<u>Survey Results</u>			
		<u>Maximum</u>	<u>Minimum</u>	<u>Average</u>	<u>Median</u>
<i>PPO - In Network:</i>					
Single	\$1,500	\$1,100	\$0	\$319	\$250
Family Maximum	\$2,500	\$2,000	\$0	\$663	\$600
<i>PPO – Out of Network:</i>					
Single	\$1,500	\$2,750	\$0	\$642	\$500
Family Maximum	\$2,500	\$5,750	\$0	\$1,375	\$1,200
<i>HMO:</i>					
Single	\$0	\$500	\$0	\$43	\$0
Family Maximum	\$0	\$846	\$0	\$78	\$0
Source: Results of survey conducted by Department of Audit.					

PPO Co-insurance for In-Network Single Coverage (Milwaukee County - 10%, \$1,500 maximum)

Limits ranged from \$0 to \$1,100, with an average of \$319 and a median of \$250, reflecting the fact that 14 counties had \$0 co-insurance limits. These results show Milwaukee County has the highest limit for in-network limits. In terms of the co-insurance percentage, the range was 0% to 25%, with 10% being the most frequent amount for those reporting co-insurance percentages, similar to Milwaukee County.

PPO Co-insurance for In-Network Family Coverage (Milwaukee County - 10%, \$2,500 maximum)

Limits for family coverage ranged from \$0 to \$2,000, with an average of \$663 and a median of \$600. These results again show Milwaukee County has the highest in-network limit. In terms of co-insurance percentage, responses ranged from 0% to 25%, again with 10% being the most frequent amount for those reporting co-insurance percentages, similar to Milwaukee County.

PPO Co-insurance for Out-of-Network Single Coverage (Milwaukee County - 20%, \$1,500 maximum)

Limits ranged from \$0 to \$2,750, with an average of \$642 and a median of \$500, reflecting the fact that half of the counties responding had co-insurance limits of \$400 or less. These results put Milwaukee County with the second highest limit for out-of-network limits. In terms of the co-insurance percentage, the range was 0% to 30%, with 20% being the most frequent amount for those reporting co-insurance percentages, again matching Milwaukee County.

PPO Co-insurance for Out-of-Network Family Coverage (Milwaukee County - 20%, \$2,500 maximum)

Limits ranged from \$0 to \$5,750, with an average of \$1,375 and a median of \$1,200. These results put Milwaukee County with the second highest limit for out-of-network limits. In terms of the co-insurance percentage, the range was 0% to 30%, with 20% being the most frequent amount for those reporting co-insurance percentages, again matching Milwaukee County.

HMO Co-insurance for Single and Family Coverage (Milwaukee County - \$0 maximum)

Only three of 21 counties offering HMOs required employees to make co-payments for covered services, with maximums for singles ranging from \$100 to \$500 annually. In all other counties, including Milwaukee County, covered services were paid in full by the HMO plan.

Co-payments

Other than co-payments for prescription drugs, Milwaukee County's plan requires virtually no co-payments for specific services to help control plan usage. Some of the co-payments required by responding counties included:

Other than co-payments for prescription drugs, Milwaukee County's plan requires virtually no co-payments for specific services to help control plan usage.

- Emergency room visits (eight counties), when patient was not admitted, ranging from \$25 - \$50 per visit. One plan required the employee to pay 20% of the emergency room charges;
- Physician office visits (ten counties), ranging from \$10 to \$30;
- One county (Green), had a series of co-payments, including the two noted above, that increased significantly if a non-network provider was used, in addition to a co-insurance requirement.

Prescription Drug Co-payments

Employee health benefit plans nearly always require employees to pay a portion of their prescription drug costs. The amount of the co-payment depends upon how the drug is classified by the plan. The three typical drug classifications are generic, brand name, and non-formulary drugs, with generic drugs being the least expensive in terms of both specific cost and co-payment requirement. The total amount of employee co-payments for drugs can be subject to a specific maximum for prescription drugs, or an overall out-of-pocket limit that also includes deductibles, co-insurance payments and other co-payments, depending on plan design.

Table 8 summarizes the data obtained from other counties responding to our survey.

Table 8 Wisconsin Counties Prescription Drug Co-payments					
	Milwaukee County	<u>Survey Results</u>			
		<u>Maximum</u>	<u>Minimum</u>	<u>Average</u>	<u>Median</u>
<i>PPO:</i>					
Generic	10%	\$10.00	\$0.00	\$6.65	\$6.00
Brand	20%	\$25.00	\$0.00	\$14.10	\$15.00
Non-Formulary	N/A	\$40.00	\$0.00	\$24.08	\$30.00
<i>HMO:</i>					
Generic	\$5.00	\$10.00	\$3.00	\$5.85	\$5.00
Brand	\$10.00	\$20.00	\$6.00	\$14.53	\$15.00
Non-Formulary	\$25.00	\$35.00	\$12.00	\$32.00	\$35.00
Source: Results of survey conducted by Department of Audit.					

Milwaukee County participants in the PPO plan pay 10% of the drug cost for generic drugs and 20% for brand name drugs. It was interesting to note that only three counties listed their co-payments as a percentage, like Milwaukee County. All other charged a flat amount, averaging \$6.65 for generic, \$14.10 for brand name, and \$24.08 for non-formulary drugs. This made it difficult to compare how Milwaukee County co-payments compared to survey respondents. For the three counties using percentages, the County's 10% co-payment for generic drugs was less than the other three counties (ranging from 15%-20%) and equal to the three other counties for brand name drugs (20%).

Under the HMO plan, County participants pay \$5 per generic prescription, \$10 for brand name and \$25 for non-formulary drugs. Also, if a generic equivalent to a brand name drug is available, and the participant chooses the brand name, the difference in drug price is charged to the individual. Overall, the

County's co-payments were less than the average reported co-payments of survey respondents in all three categories.

Overall, only two of the 57 counties responding did not require a co-payment for prescriptions.

Section 3: Milwaukee County Health Care Cost Drivers

A thorough analysis of 2003 health care claims provides insight into how Milwaukee County spends its health care dollars.

The key to developing effective strategies to help contain the cost of Milwaukee County's employee health care benefit is understanding the underlying conditions that put upward pressure on those costs. A thorough analysis of 2003 health care claims provides additional insight into how Milwaukee County spends its health care dollars. With this understanding and insight, areas can be identified with the greatest opportunity for effectively combating rising health care cost trends.

For purposes of this analysis, we focused our efforts on health care expenditures related to the County's self-insured Conventional Plan, rather than the capitated rates paid by the County for HMO coverage. This decision was based on the fact that the County's HMO plan option provides at least short term financial certainty, in that the provider assumes the financial risk of costs exceeding capitated rates during the contract period. Further, our initial background work for this project suggested that the County's self-insured Conventional Health Care Plan, with a greater number of providers, enrollees and a much greater average enrollee age, offered more opportunities for both immediate and long-term cost savings.

General Data Analysis

We began our analysis by obtaining from Humana all data associated with 2003 claims processed and paid by Milwaukee County in 2003. We reconciled this data with Milwaukee County accounts payable payment records to assure we had a complete set of claims paid in 2003. Due to lags in claims submissions and processing, this does not account for all health care services provided under the program in 2003—a small portion of services provided in 2003 (approximately 10%) will be paid in 2004. However, the \$48.1 million of claims paid in 2003 is sufficient to

present a comprehensive picture of Milwaukee County's Conventional Plan health care expenditures.

For purposes of analysis, we broke out the \$48.1 million of payments in a variety of ways. Following is a discussion of insights gleaned from analyzing Milwaukee County's self-insured health care costs from the following perspectives:

- Demographics
- Nature of County Health Care Costs, by Major Category
- Major Provider Payments/Discounts
- Plan Design Issues

Demographics

One significant factor affecting the County's health care costs is the relatively advanced age of the pool of employees and retirees covered by the health care benefit. According to information provided by Humana, the average age of all members covered under the Milwaukee County Conventional Health Care Plan in 2003, including employees, retirees and their dependents, was 55 (compared with 36 for the average HMO member). Health Care System Consultants, Inc., a consulting firm with extensive experience analyzing Wisconsin public health care issues, stated in a January 2004 memo that Milwaukee County's average age is 10-12 years older than that of the other 13 Wisconsin counties served by the firm.

The average age of all members covered under the Milwaukee County Conventional Health Care Plan in 2003 was 55.

Table 9 shows a breakout of the \$48.1 million of claims paid in 2003 among active employees, retirees under the age of 65, and retirees 65 and older.

**Table 9
Claims Paid in 2003
By Member Type**

Member Type*	Payments (Millions)	% Total Payments
Active Employees	\$ 22,434,638	46.7%
COBRA	205,285	0.5%
Retirees:		
Under 65	14,003,700	29.1%
65+	<u>11,413,535</u>	23.7%
Total Retirees	25,417,235	52.8%
Total	\$ 48,057,158	100.0%

* Member totals include dependents.

Source: Humana 2003 Claims Paid Database.

Slightly more than half of the 2003 claims payments were for retirees, with more than 50% of retiree payments made on behalf of retirees under 65 years of age.

The data shows that slightly more than half of the 2003 claims payments were for retirees, with more than 50% of retiree payments made on behalf of retirees under 65 years of age. It should be noted that payments for retirees aged 65 or more are reduced substantially from what they would otherwise be due to coordination of benefits with Medicare (this is discussed in greater detail later in this report).

Table 10 provides a further stratification of costs by age.

Table 10
Milwaukee County Conventional Health Care Plan
Claims Processed and Paid in 2003
By Age of Patient

<u>Age of Patient</u>	<u>Amount Paid</u>	<u>Percent of Total Paid</u>	<u>Cumulative Percent of Total</u>
Under 4	\$704,681	1.5%	1.5%
5 to 9	223,532	.5%	2.0%
10 to 14	544,895	1.1%	3.1%
15 to 19	1,011,763	2.1%	5.2%
20 to 24	548,617	1.1%	6.3%
25 to 29	380,702	0.8%	7.1%
30 to 34	898,090	1.9%	9.0%
35 to 39	1,127,896	2.3%	11.3%
40 to 44	1,875,863	3.9%	15.2%
45 to 49	4,616,621	9.6%	24.8%
50 to 54	7,118,132	14.8%	39.6%
55 to 59	8,669,292	18.0%	57.6%
60 to 64	9,049,050	18.9%	76.5%
65 to 69	2,811,158	5.9%	82.4%
70 to 74	2,562,729	5.3%	87.7%
75 to 79	2,810,231	5.8%	93.5%
80 to 84	1,861,829	3.9%	97.4%
85 to 89	866,553	1.8%	99.2%
90 to 94	297,276	.6%	99.8%
95 to 99	78,248	.2%	100.0%
Total	\$48,057,158	100.0%	

Source: Humana 2003 Claims Paid Database.

Milwaukee County health care costs generally rise with the average age of the member group.

As the data in **Table 10** shows Milwaukee County health care costs generally rise with the average age of the member group, until Medicare COB is established with the 65+ age group. To the extent this is a natural phenomenon associated with the frailties of age, this long-term cost driver cannot be altered. However, understanding some of the unique characteristics of Milwaukee County's health care benefit, in relation to other public health care plans, can provide insights useful in shaping effective strategies to combat the upward pressure on costs due to demographics.

Benefit Design/Demographic Trend Issues Impacting Milwaukee County Health Care Costs

The Rule of 75 creates the opportunity for those individuals to retire at an age up to 10 years, or more, earlier than the standard retirement age of 60.

Although the free health care benefit was eliminated for County employees hired as of January 1, 1994, the financial impact of the resulting 'tail' of currently eligible retirees and pre-1994 hires is substantial.

- **Rule of 75.** As previously shown in **Table 9**, retirees under the age of 65 accounted for 29.1% of the Milwaukee County Conventional Plan costs incurred and paid in 2003. While there has been no effort to track the number of individuals utilizing this retirement provision since its inception in 1994, it has undoubtedly created an attractive incentive for individuals in their 50s, with the appropriate years of County service and the prospect of free health insurance, to retire. An incremental pension enhancement, topping out at 25% for pre-1982 hires, was fully realized in April of this year. The free health care and the increased pension benefit create financial circumstances that permit many individuals to retire at an age earlier than would otherwise be the case. The Rule of 75 creates the opportunity for those individuals to retire at an age up to 10 years, or more, earlier than the standard retirement age of 60. The data in **Table 9** suggests that the County is already experiencing health care cost pressures from this group, within the 'retirees under 65' category that currently accounts for 29.1% of total Conventional Plan costs.
- **Free Health Care 'Tail.'** The impact of the Rule of 75 is only a subset of the larger impact of the County's retirement benefit of free health care for individuals with at least 15 years of County service.

The 2003 Kaiser Survey of large firms offering employee sponsored health benefits shows that 66% of those firms offered retiree health benefits in 1988. By 2003, the percentage offering retiree health insurance had dropped to 38%.

Although the free health care benefit was eliminated for County employees hired as of January 1, 1994, the financial impact of the resulting 'tail' of currently eligible retirees and pre-1994 hires is substantial. The cost of that obligation was estimated in a 1999 report at \$22.2 million annually on a 'pay as you go' basis. Recognition of the unfunded long-term liability inherent in the obligation was estimated to add an additional \$18 million to \$27 million annually to that amount, depending upon assumptions regarding health care cost increases.

- **Policy permitting retirees to purchase health care.** For those County retirees that are not eligible for free health care benefits, the County has traditionally offered Conventional Plan coverage at the budgeted per capita premium rate. We identified 139 retirees and other individuals purchasing Milwaukee County Conventional Plan coverage under the federal COBRA act. We found that, for services rendered

and paid in 2003, the total activity was essentially a break-even proposition for the County, primarily due to Medicare COB coverage for retirees aged 65+. However, the County may wish to revise its methodology for determining premium rates for this group, particularly if the number of pre-Medicare-eligible retirees purchasing this coverage were to grow. In future years, employees retiring without the free health care benefit (those hired on or after January 1, 1994) could add significantly to this group.

To avoid a situation in which the County offers health insurance coverage at rates that are inadequate to cover costs, the methodology for calculating premium rates should be reviewed to ensure all appropriate factors are considered. For instance, the current calculation of premiums contains no factor for budgetary overruns (i.e., a risk reserve). Such review should include input from the County Corporation Counsel, as well as an actuary, to ensure the County recovers all anticipated costs in an equitable and legally sound manner. It should be noted that the option to purchase County health care is extended to members of boards and commissions such as the Ethics Board and the Personnel Review Board. Therefore, we recommend that DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

1. *Review its methodology for calculating health care premiums.*

- **Future Medicare Rx coverage.** Earlier this year, Congress passed Medicare reforms that included, for the first time, prescription drug coverage for program participants. Using a phased-in approach, a limited scope prescription drug benefit was unveiled recently, providing Medicare recipients the opportunity to purchase discount cards offering reductions of between 10% and 35% off of the retail price of specific prescription drugs. Based on our review of Medicare literature and attendance at a local orientation meeting for potential participants, we do not believe the initial Medicare prescription drug benefit would offer cost reductions for either Milwaukee County or retirees covered under its Conventional Health Care Plan. However, the County will need to monitor the development of the Medicare drug benefit as it evolves for potential future impact.
- **Medicare Coordination of Benefits (COB).** When County retirees reach Medicare eligibility age (currently 65), the

County pays their monthly premium fee for Medicare enrollment (\$58.70 for 2003 and \$66.60 for 2004). At that point, Medicare becomes the primary insurer and Milwaukee County becomes the secondary insurer, at a substantial savings to the County. For instance, the \$48.1 million in claims processed and paid in 2003 reflected a total savings of \$13.2 million due to Medicare COB.

Nature of Milwaukee County Health Care Costs

As shown in **Table 11**, Milwaukee County Conventional Plan Health Care expenses can be grouped into three major categories.

<u>Category</u>	<u>Payments</u>	<u>% Total Payments</u>
Hospital:		
Inpatient	\$ 10,213,567	21.3%
Outpatient	9,021,828	18.8%
Emergency Room	929,711	1.9%
Other	<u>784,302</u>	<u>1.6%</u>
Total Hospital	\$ 20,949,408	43.6%
Physicians	14,547,536	30.3%
Pharmacy	12,560,214	26.1%
Total	\$ 48,057,158	100.0%

Source: Humana 2003 Claims Paid Database.

Major Provider Payments/Discounts

Negotiated vs. Effective Discount Rates

The health care industry differs from many others in the complexity of its pricing arrangements. For a myriad of reasons, including constantly evolving procedures, technologies and government regulations, contractual agreements in the health care industry often revolve around the concept of discounts from covered charges. For instance, the County's third party administrator, Humana, may have a contractual agreement with a particular hospital system that provides for a discount of 25%

off of charges covered by the County's Conventional Health Care Plan.

Interspersed within this general framework, however, are separately negotiated contractual rates for specific procedures. For instance, Humana may have negotiated a flat contractual rate of \$20 for a particular blood test, regardless of the actual charge for that particular service.

By the same token, when a plan participant goes outside of the preferred provider network established by either Humana (PPO) or Aurora Direct (EPO) in the case of Milwaukee County, there may be little or no contractual discount rates applied.

Thus, the blending of the above factors—the presence or absence of contractual discount rates, as well as contracted 'flat' rates for specific procedures—may result in *effective* discount rates that vary in their application from the *negotiated* rates.

In addition, Coordination of Benefits with Medicare typically creates a scenario in which the County, as secondary insurer, pays all remaining charges at 100% (e.g., Medicare deductibles and a small number of charges covered by Milwaukee County that are not covered by Medicare). County data shows that, regardless of where the services are rendered, Medicare COB results in the achievement of savings for the County that far exceeds the negotiated discount rates offered by any of its providers.

It is significant to note that Humana's contracts with the various providers comprising its nationwide network include provisions preventing annual increases in charges that exceed various negotiated rates (between 3% and 8%, according to Humana), providing the County a degree of price protection for the contract year.

Since hospital charges comprise nearly 44% of total Conventional Plan expenditures, provider choices made by members is an important factor influencing Milwaukee County's overall health care costs.

Hospital Charges

Since hospital charges comprise the single largest cost component, nearly 44% of total Conventional Plan expenditures, the pattern of provider choices made by members is an important factor influencing Milwaukee County's overall health care costs. **Table 12** provides a breakout of 2003 claims payments to the major hospitals that provided health care to Milwaukee County plan members.

**Table 12
Payments to Providers
by Major Hospitals**

<u>Provider</u>	<u>Percent Effective Discount*</u>	<u>Total Paid*</u>
Aurora St. Luke's (PPO)	10%	\$ 5,750,212
Aurora St. Luke's (EPO)	30	1,159,306
Columbia Hospital (PPO)	20	1,726,256
Columbia Hospital (EPO)	19	9,414
Froedtert Memorial Hospital (PPO)	41	1,584,431
Froedtert Memorial Hospital (EPO)	2	27,768
Aurora West Allis Memorial (PPO)	10	1,511,599
Aurora West Allis Memorial (EPO)	35	386,439
St. Joseph Regional Medical Center (PPO)	50	1,096,394
St. Joseph Regional Medical Center (EPO)	1	96,589
St. Mary's Hospital Milwaukee (PPO)	20	807,915
St. Francis Hospital (PPO)	51	770,238
Aurora Sinai Medical Center (PPO)	10	547,047
Aurora Sinai Medical Center (EPO)	35	371,962
All Other Hospitals (PPO)	30	4,582,268
All Other Hospitals (EPO)	13	847,745
Sub Total All Hospitals (PPO)	26	18,376,360
Sub Total All Hospitals (EPO)	27	2,573,048
Grand Total	26%	\$ 20,949,408

* Effective discount rates calculated using non-COB claims. Effective discount rates reflect blend of contractual discount rates and capitated, or 'flat' rates for specific procedures, as applied. Thus, effective discount rates shown above may vary from contractual rates. Total paid represents County cost after applicable COB, discount and patient deductible/co-insurance amounts.

Source: Humana 2003 Claims Paid Database.

There are stark differences in discounts achieved by Milwaukee County with Aurora Health Care hospitals in relation to all other hospitals in the Milwaukee area.

Displayed in this manner, the data in **Table 12** shows that the average discounts achieved against covered charges in the Aurora Direct EPO network (27%) are slightly higher than those achieved in the Humana PPO network (26%). However, the higher discounts are applied to only about 10% of the total covered charges of the County's Conventional Plan participants. Viewing the same information in **Table 12** in another way shows the stark difference in discounts achieved by Milwaukee County, through its Third Party Administrator, Humana, with Aurora Health Care hospitals in relation to all other hospitals in the Milwaukee area. **Table 13** displays this difference.

**Table 13
Payments to Providers
by Plan Options**

<u>Provider</u>	<u>Percent Effective Discount</u>	<u>Total Paid*</u>
Aurora St. Luke's (PPO)	10%	\$5,750,212
Aurora West Allis Memorial (PPO)	10	1,511,599
Aurora Sinai Medical Center (PPO)	10	547,047
Other Aurora Facilities (PPO)	10	52,667
Total Aurora Hospital (PPO)	10%	\$7,861,525
Aurora St. Luke's (EPO)	30	1,159,306
Aurora West Allis Memorial (EPO)	35	386,439
Aurora Sinai Medical Center (EPO)	35	371,962
Other Aurora Facilities (EPO)	35	112,415
Total Aurora Hospital (EPO)	32%	\$2,030,122
Columbia Hospital (EPO)	9	9,414
Froedtert Memorial Hospital (EPO)	2	27,768
St. Joseph Regional Medical Center (EPO)	1	96,589
All Other Hospitals (EPO)	4	409,155
Total All Non-Aurora (EPO)	4	\$542,926
Columbia Hospital (PPO)	20	1,726,256
Froedtert Memorial Hospital (PPO)	41	1,584,431
St. Joseph Regional Medical Center (PPO)	50	1,096,394
St. Mary's Hospital Milwaukee (PPO)	19	807,915
St. Francis Hospital (PPO)	51	770,238
All Other Hospitals (PPO)	20	4,529,601
Total All Non-Aurora (PPO)	35%	\$10,514,835
Total All Hospitals	26%	\$20,949,408

* Effective discount rates calculated using non-COB claims. Effective discount rates reflect blend of contractual discount rates and capitated, or 'flat' rates for specific procedures, as applied. Thus, effective discount rates shown above may vary from contractual rates. Total paid represents County costs after applicable COB, discount and patient deductible/co-insurance amounts.

Source: Humana 2003 Claims Paid Database.

Milwaukee County employees and retirees have, through their health care provider choices, made Aurora system facilities the dominant player affecting Milwaukee County Conventional Plan health care costs.

As can readily be seen from the data in **Table 13**, Milwaukee County employees and retirees have, through their health care provider choices, made Aurora system facilities the dominant player affecting Milwaukee County Conventional Plan health care costs. Additional information gleaned from the 2003 data include the following:

- Aurora facilities account for 39.5% of the total covered hospital charges for Milwaukee County Conventional Plan enrollees, through either the Humana PPO network (31.1%) or its own Aurora Direct EPO network (8.4%).
- These same Aurora facilities account for 47.2% of total Milwaukee County Conventional Plan hospital payments.
- The overall higher costs to the County reflected in the above statistics result from Aurora hospitals offering the County comparatively low discounts, in relation to other area hospitals, in the much more heavily utilized Humana PPO network. Even though the same Aurora facilities are providing the same services to the same Milwaukee County client base, Aurora's PPO discounts average less than one-third those it provides Milwaukee County in exchange for its exclusive arrangement in the Aurora Direct EPO network.

The significant disparity in discounts offered by Aurora system facilities under the two networks that comprise Milwaukee County's Conventional Health Care Plan suggest two options to reduce County health care costs.

The significant disparity in discounts offered by Aurora system facilities under the two networks that comprise Milwaukee County's Conventional Health Care Plan suggest two options to reduce County health care costs:

- Influence members to enroll in the Aurora Direct EPO plan option to increase the overall percentage of Aurora services provided County plan members at the much higher discount levels; or,
- Obtain much deeper discount levels from Aurora as a provider in the County's PPO network.

Once again, the data contained in **Tables 12** and **13** can be presented in a different way to offer insight regarding the better of these two options from Milwaukee County's perspective.

As shown in **Table 14**, average discount levels drop dramatically for services rendered by out-of-network providers under both the PPO and EPO plan options.

Table 14
Milwaukee County Hospital Charges
In- and Out-of-Network Costs
PPO and EPO Networks

<u>Category</u>	<u>% Effective Discount</u>	<u>Total Paid*</u>
PPO In-Network	27%	\$17,482,012
PPO Out-of-Network	4%	<u>894,348</u>
Overall PPO Hospital	26%	\$18,376,360
EPO In-Network	32%	\$2,114,815
EPO Out-of-Network	0%	<u>458,233</u>
Overall Total EPO Hospital	27%	\$2,573,048

* Effective discount rates calculated using non-COB claims. Effective discount rates reflect blend of contractual discount rates and capitated, or 'flat' rates for specific procedures, as applied. Thus, effective discount rates shown above may vary from contractual rates. Total paid represents County cost after applicable COB, discount and patient deductible/co-insurance amounts.

Source: Humana 2003 Claims Paid Database.

As shown in **Table 14**, average discount levels achieved from Humana PPO network providers is 27%. However, the average discount levels achieved from out-of-network providers under the PPO plan option is just 4%. Similarly, average discount levels achieved from Aurora Direct network providers is 32%, while discount levels fall to 0% on services rendered by out-of-network providers.

An important distinction between the two networks, however, is the vast difference in their composition. One of the key factors in the County's ability to obtain lower costs under the Humana PPO network, in relation to the previous network maintained by WPS, is the nationwide scope of the Humana group. Through its ability to negotiate discounts with a far larger network of providers nationwide, Humana was able to achieve much greater discounts for the County's growing number of non-local retirees. In comparison, the WPS network was too regional to competitively service the geographically dispersed County

clientele. In similar fashion, the Aurora Direct EPO network is comprised of a relatively small number of local and regional facilities. Payment data shows that services rendered by out-of-network providers, offering no discounts to Milwaukee County, accounted for 17.8% of all paid hospital charges from 2003 claims paid through the EPO plan option. In contrast, services rendered by out-of-network providers represented just 4.9% of all paid hospital charges from 2003 claims paid through the PPO plan option, a statistic that is all the more impressive given that virtually all retirees and their dependents residing outside the Southeast Wisconsin area receiving County health care benefits are enrolled in the PPO plan option.

Under the Aurora Direct EPO option the patient has no financial stake in his or her health care service decisions.

Another consideration that weighs heavily against a Milwaukee County strategy of encouraging greater numbers of plan participants to choose the Aurora Direct EPO option is the absence of all service-related deductibles and co-insurance obligations. Thus, the patient has no financial stake in his or her health care service decisions, and unlike the HMO option, where a third party assumes the financial risk of such decisions, in the EPO plan option, the County remains self-insured and pays the total cost of patients' health care service choices.

Should the County be successful in obtaining deeper discounts from Aurora, substantial savings would accrue without any changes in plan design or plan participant behavior.

Should the County be successful in obtaining deeper discounts with Aurora for services provided and paid through the County's Humana PPO plan option, substantial savings would accrue without any changes in plan design or plan participant behavior. For instance, discounts offered to Milwaukee County EPO plan participants at Aurora's St. Luke's Regional Medical Center averaged 30%, as opposed to just 10% for services to Milwaukee County PPO plan participants at the same facility. If Aurora extended its deeper discount levels to PPO as well as EPO participants, we estimate Milwaukee County would have saved approximately \$1.6 million of the \$20.9 million in 2003 claims payments reviewed. Including an estimate for 2003 claims that were not yet processed and paid in 2003

(approximately \$5 million total, including \$2.2 million in hospital payments) would increase the estimated savings to about \$1.7 million.

As noted in the **Background** section of this report, the Aurora Direct EPO plan option is a hybrid plan that matches the zero-deductible/co-insurance benefit levels of the Humana HMO option, but retains the fee-for-service, self-insured payment characteristics of the County's Convention Health Care Plan. The lack of patient deductible/co-insurance obligations defies conventional wisdom, which prescribes a personal financial stake in consumer health care choices to create an incentive to curtail costs. Whereas the capitated fee structure of the HMO option creates a financial incentive for the plan provider to minimize total costs, there is no such incentive present in the Aurora Direct EPO plan option. As such, we view that option as flawed from the County's perspective.

Further, while Aurora maintains that superior disease management efforts under its EPO plan will produce a net health care savings to Milwaukee County, we believe such assertions are exceedingly difficult to quantify. However, to the extent this assertion is accurate, the County should be able to benefit from such efforts under either the PPO or EPO plan option. Therefore, we recommend that DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

Due to Aurora's prominence as the number one provider of health care services to Milwaukee County Conventional Plan members, the comparatively low discount rates are adding significantly to the County's health care costs.

2. *Terminate its agreement with Aurora for the Aurora Direct EPO Conventional Health Care Plan option.*

Due to Aurora's prominence as the number one provider of health care services to Milwaukee County Conventional Plan members, the comparatively low discount rates afforded members of the PPO plan option are adding significantly to the County's health care costs. According to a study published by the Public Policy Forum issued in April 2003, significantly higher health care costs in the Southeastern Wisconsin region are

primarily caused by a higher-than-average concentration of market power in the hands of providers. According to the report,

“One estimate blamed two-thirds of Milwaukee’s higher than average health care costs on provider pricing. Regardless of that estimate, however, market power has shifted since the mid-1990s in the Greater Milwaukee area to providers, and most of all to physicians. To control costs, the most critical change needed is to shift some significant degree of market power to the employers of Milwaukee who buy health care plans, to HMOs who serve as the employers’ agents in the purchase of plans, and finally to the individual consumer of health care who gains power in the marketplace by gaining knowledge of the cost and quality of services from providers.”

Aurora has already demonstrated to Milwaukee County that it can offer competitive discounts—it has done so through its Aurora Direct EPO option. However, Aurora has required patient exclusivity in return for those discounts. To achieve competitive discounts from Aurora for services rendered under the standard Humana PPO plan option, Milwaukee County labor and management must be willing to proceed with a health care plan that excludes Aurora facilities in the event such competitive discounts cannot be achieved. Therefore, we recommend that DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

- 3. Obtain competitive discounts with Aurora through the Humana PPO plan option or, alternatively, exclude Aurora facilities from the Milwaukee County Conventional Health Care Plan.*

Physician Charges

In addition to the significant discrepancies in hospital provider discounts previously described, we reviewed discounts for services rendered by physicians. Although overall discounts achieved from physicians averaged approximately 32%, we found significant disparities in average discounts achieved among local physicians. For instance, the data shows that

Approximately 40% of local physicians rendered services with average effective discount rates of 15% or less, averaging just 11.5%.

approximately 40% of local physicians rendered services with average effective discount rates of 15% or less, averaging just 11.5%. If this group of physicians provided discounts in line with the overall average of 32%, we estimate the County would have saved about \$600,000.

The above analysis included more than 3,300 local area physicians. Achieving significant discount rates with physicians can be more problematic than with large hospital systems because of their sheer numbers and multiple physician affiliations. It is important to note that in the above analysis, while 40% of the local physicians offered discount rates substantially below the average, the services rendered by those physicians accounted for only 20% of the covered charges rendered by all local physicians. As a result, the overall discount rates achieved by the Milwaukee County Conventional Plan are significant. However, since physician charges comprise approximately 30% of the County's health care costs, the County should work closely with its Third Party Administrator to monitor this area of expenditures.

Pharmacy Charges

Analysis of prescription drug costs is difficult because of issues surrounding the various factors contributing to the total cost of the benefit. For instance, when the County contracted with Humana as its Third Party Administrator (TPA) in 2003, it included utilization of Humana's network of providers as well as its network of preferred pharmacies. According to a health care actuary who performed an analysis of the Humana proposal in 2002, it was anticipated the Humana pharmacy network would save the County approximately 5% from better discounts over the County's arrangement with its previous TPA. The actuary at that time predicted average prescription drug prices to rise 20% in 2003. Our review of 2003 data showed prescription drug costs to the County rose 10% over 2002. However, there is no ability to distinguish between increased drug costs vs. increased

utilization. Further complicating this analysis is the constant introduction of new, expensive brand name drugs into mainstream health care.

The pharmacy network included in the Humana TPA contract appears to have had a positive impact on County prescription drug costs.

Because of these factors, we were unable to perform a definitive analysis of the County's prescription drug costs, which comprised approximately 26% of Conventional Health Care Plan expenditures. However, given the general upward pressure on prescription drug costs, the introduction of new brand name drugs and the advancing age of the County's Conventional Plan participants (average age of 55.4 in 2003), the pharmacy network included in the Humana TPA contract appears to have had a positive impact on County prescription drug costs. Using the earlier projection of a 20% increase in 2003 prescription drug costs, as noted in **Section 1** of this report, we estimate the County saved about \$1.1 million in this area of health care expenditures as a result of the Humana preferred provider pharmacy network.

Plan Design Issues

One important factor in controlling health care costs is the degree to which plan participants have a financial stake in the health care service choices they make.

Since hospital charges constituted the largest major category of Conventional Plan health care expenditures, we reviewed the County's plan design for potential opportunities for cost reduction. In reviewing current industry literature and in discussion with health care cost consultants, a constant theme emerged: one important factor in controlling health care costs is the degree to which plan participants have a financial stake in the health care service choices they make. In a theoretical sense, human nature compels us to adhere to a health care philosophy, the essence of which is captured in the statement, 'you can't put a price tag on top-notch medical care.'

However, from a public policy standpoint, it simply is not feasible to offer the best available health care to public employees, irrespective of the cost. If that were the case, we would routinely send seriously ill patients, at the plan's expense, to the foremost

medical authorities in the world. Instead, as a matter of practicality, we accept a tradeoff that limits coverage to that which is of acceptable quality, and that is available to the patient either locally or regionally.

At the individual level, health care choices are influenced heavily by the degree to which a health care plan shields its participants from the financial impacts of the decisions that are made. As a practical matter, health care choices that entail out-of-pocket costs for plan participants generally will receive a great deal more scrutiny regarding the perceived quality/cost tradeoff than those whose financial consequences are borne entirely by the health care plan. The greater the degree of the individual's financial stake, the greater is the individual's propensity to scrutinize the cost of the health care choices made.

Total Out-of-Pocket Expenses

In the previous sections of this report, we presented nationwide data on the average percentage of health care expenses borne by consumers (13.7%, excluding premiums) and on the average level of deductibles and co-insurance obligations for county workers in Wisconsin (generally consistent with Milwaukee County's).

There are three components to out-of-pocket expenses, each with differing characteristics. Following is a brief description of each.

- **Monthly premiums:** A flat monthly payment charged to each member of a health care plan designed to cover a portion of the total cost of the plan. While the premium can be an effective means of raising revenue to offset costs, it provides no incentive for plan members to minimize utilization of plan benefits.
- **Deductibles:** As previously described, deductibles are the amounts that patients must pay directly to providers each year, before an insurance plan begins paying for benefits. While deductibles can have some deterrent effect on health care service utilization, once an annual deductible amount is

met, it no longer has a deterrent effect. Therefore, relatively low annual deductible levels have a lesser deterrent effect on utilization than deductibles set at relatively higher amounts.

- **Co-payments (co-pays) and Co-insurance:** The portion of a medical bill a patient must pay after the deductible is met. It is generally expressed as a percentage of the cost. Since patient costs typically increase proportionately with the total cost of a medical service, co-insurance obligations have the theoretical potential to create a strong incentive for patients to both avoid unnecessary medical procedures and to seek out the lowest cost provider. Maximum caps can be placed on co-pays and co-insurance obligations to shield individuals from the financial consequences of severe health problems.

Milwaukee County employees and retirees paid approximately 12.4% of the total employer/employee cost of health care provided to them and their dependents in 2003.

There are several ways of viewing out-of-pocket expenses. In the broadest sense, Milwaukee County employees and retirees paid approximately 12.4% of the total employer/employee cost of health care provided to them and their dependents in 2003.

However, retirees pay a lower percentage of out-of-pocket costs, benefiting from:

- No monthly premium payments for retirees eligible for the free health care benefit; and
- For those retirees aged 65 or older, no deductible or co-insurance payments as a result of the manner in which the County coordinates benefits with Medicare.

Table 15 shows the source of payment for employer/employee health care costs incurred as a result of the Milwaukee County health care benefit, including out-of-pocket expenses for three categories of plan members: County employees, retirees under the age of 65, and retirees aged 65 or older.

Table 15
Milwaukee County Health Care Benefit Costs
Source of Payments for Claims Processed and Paid in 2003

<u>Payor</u>		<u>Amount</u>	<u>% Total</u>
Milwaukee County Payments (After Discounts)	\$48,100,000		
Milwaukee County Administrative Fee Payments	1,758,400		
Milwaukee County HMO Premium Payments	26,106,500		
Milwaukee County Medicare Premium Payments	<u>3,714,200</u>		
Total Milwaukee County Payments	79,679,100		
(Minus Employee Premium Contributions)	<u>(5,416,600)</u>		
Net Milwaukee County Payments		\$74,202,500	87.5%
County HMO Plan Member Payments			
Employee Premiums	2,816,600		
Member Rx Co-pays	<u>1,155,200</u>		
Total HMO Member Payments		3,971,800	4.7%
County Conventional Plan Member Payments			
Employee Premiums	2,600,000		
Employee Deductibles	525,700		
Employee Co-Insurance	233,300		
Employee Rx Co-pays	<u>599,100</u>		
Total Employee Payments		3,958,100	4.7%
Retirees Under 65 Deductibles	264,300		
Retirees Under 65 Co-Insurance	138,200		
Retirees Under 65 Rx Co-pays	<u>546,400</u>		
Total Retirees Under 65 Payments		948,900	1.1%
Retirees 65+ Deductibles	-0-		
Retirees 65+ Co-Insurance	-0-		
Retirees 65+ Rx Co-pays	<u>1,603,900</u>		
Total Retirees 65+ Payments		\$1,603,900	1.9%
Grand Total		\$84,745,200*	100.0%

* Total cost reflects offsets totaling \$13.2 million as a result of Medicare COB.

Source: Humana 2003 Claims Paid Database and County Board Budget Data. Does not include approximately \$5 million of claims incurred but not reported.

Refining the data further shows the degree to which County employees are approaching annual deductible and co-insurance obligations (excluding prescription drugs) subject to out-of-pocket maximum cap protections of \$1,500 and \$2,500 for single and family plan participants, respectively, established to afford plan members protection from the potentially catastrophic financial consequences of serious health issues. This data is presented in **Table 16**.

Table 16
Deductible and Co-Insurance Amounts Paid
Per County Subscriber

<u>Range</u>	<u>Single</u>	<u>Percent of Total</u>	<u>Cumulative Percent</u>	<u>Family</u>	<u>Percent of Total</u>	<u>Cumulative Percent</u>
\$0-100	194	16.7%	16.7%	164	8.2%	8.20%
101-200	542	46.8%	63.5%	331	16.6%	24.75%
201-300	229	19.8%	83.3%	268	13.4%	38.15%
301-400	67	5.8%	89.0%	389	19.5%	57.60%
401-500	44	3.8%	92.8%	256	12.8%	70.40%
501-600	26	2.2%	95.1%	197	9.9%	80.25%
601-700	17	1.5%	96.5%	149	7.5%	87.70%
701-800	11	0.9%	97.5%	74	3.7%	91.40%
801-900	5	0.4%	97.9%	42	2.1%	93.50%
901-1000	5	0.4%	98.4%	27	1.4%	94.85%
1001-1100	6	0.5%	98.9%	26	1.3%	96.15%
1101-1200	1	0.1%	99.0%	16	0.8%	96.95%
1201-1300	1	0.1%	99.1%	11	0.6%	97.50%
1301-1400	2	0.2%	99.2%	15	0.8%	98.25%
1401-1500	9	0.8%	100.0%	10	0.5%	98.75%
1501-1600	N/A	N/A	N/A	6	0.3%	99.05%
1601-1700	N/A	N/A	N/A	5	0.3%	99.30%
1701-1800	N/A	N/A	N/A	2	0.1%	99.40%
1801-1900	N/A	N/A	N/A	4	0.2%	99.60%
1901-2000	N/A	N/A	N/A	1	0.1%	99.65%
2001-2100	N/A	N/A	N/A	4	0.2%	99.85%
2101-2200	N/A	N/A	N/A	0	0.0%	99.85%
2201-2300	N/A	N/A	N/A	2	0.1%	99.95%
2301-2400	N/A	N/A	N/A	0	0.0%	99.95%
2401-2500	N/A	N/A	N/A	1	0.1%	100.0%
Total Subscribers	1,159			2,000		
Total Paid	\$260,740			\$835,930		

Source: Humana 2003 Claims Paid Database.

Less than 10% of both single and family plan participants pay more than one-third of the applicable out-of-pocket maximum.

As shown in **Table 16**, the great majority of both single and family plan participants in the Milwaukee County Conventional Health Care Plan did not approach the maximum cap limits on out-of-pocket expenses, excluding prescription drug co-pays, in 2003. Specifically, more than 90% of single plan participants paid \$500 or less in out-of-pocket deductibles and co-insurance payments subject to the maximum limit of \$1,500. Similarly, the data shows that more than 90% of family plan participants paid \$800 or less in out-of-pocket deductibles and co-insurance payments subject to the maximum family limit of \$2,500. Conversely, less than 10% of both single and family plan participants pay more than one-third of the applicable out-of-pocket maximum.

The data presented in **Table 16** shows that there may be an opportunity for the County to develop a strategy whereby small changes in plan design that affect plan participant out-of-pocket expenses, yet remain within or below existing caps, could be used to create incentives to reduce overall County health care costs.

According to the 2003 Kaiser Survey, 17% of all firms with 5,000 or more workers offered a high deductible plan with annual deductibles of \$1,000 or more for single coverage. The annual deductible levels for Milwaukee County have been adjusted only once during the past decade (an increase in 2002 of \$50 in the annual in-network deductible for each plan participant, with a \$150 increase in the family plan in-network maximum deductible). Out-of-pocket maximums have remained constant during that same period. Therefore, we recommend that DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

- 4. Increase annual deductible and co-insurance obligation levels established in the Milwaukee County Conventional Health Care Plan. A strategy of gradual escalation, with a possible indexing mechanism, should be considered.*

Applicability of Deductibles and Co-insurance Liabilities

In life-altering or life-threatening situations, such as emergency cardiac procedures or various cancer treatments, cost implications may not be a realistic consideration for health care consumers. However, there are many ancillary, discretionary and routine medical procedures that may be subject to much greater consumer scrutiny regarding necessity and cost.

Based on claims paid in 2003, Milwaukee County was charged a variety of rates for two specific procedures. For one blood test, payments ranged from under \$10 to \$109.

For instance, we compared total charges submitted on claims by various providers, including physicians' offices, clinics and hospitals, for two specific CPT (current procedural terminology) codes, one for a 'lipid panel' and one for a 'metabolic panel.' These are two standard regimens of blood specimen analyses. Based on claims paid in 2003, Milwaukee County was charged a variety of rates for these two procedures. For the lipid panel, payments ranged from under \$10 to \$109. For the metabolic panel, payments ranged from under \$10 to \$158. In many cases, the lower rates in these ranges are attributable to contracted rates with certain laboratory facilities, as opposed to individual doctors' offices.

Under the Milwaukee County Conventional Plan, both the Humana PPO and Aurora Direct EPO, plan participants pay no portion of the cost of either the lipid panel or the metabolic panel blood test noted above. Therefore, there is no personal financial stake to act as an incentive to reduce the total costs to Milwaukee County of \$141,000 for these two particular procedures.

Other examples of services in the Milwaukee County Conventional Health Care Plan for which there is no deductible or co-insurance element for plan participants:

- Emergency Room Visits. A total of \$1.5 million in payments resulted from emergency room services. Many plans require a flat co-pay, such as \$50, for emergency room services that do not involve admittance as a hospital inpatient.

Appropriately structured, such co-pay obligations discourage casual use of the emergency room for minor ailments, but do not dissuade legitimate emergency room utilization. Based on 2003 data, this co-pay would have generated about \$60,000. However, diminished use of the emergency room could result in much greater savings to the County.

- Diagnostic Radiology and Ultrasound. Various services including conventional x-rays, CT (computer tomography) scans, and MRI (magnetic resonance imaging) totaled \$1.5 million in payments.

Under the County's current plan design, deductibles and co-insurance obligations apply to little more than physician office visits, office-based procedures and medical equipment.

Under the County's current plan design, deductibles and co-insurance obligations apply to little more than physician office visits, office-based procedures and medical equipment. Given the limited applicability of Milwaukee County Conventional Plan deductibles and co-insurance obligations, coupled with the data showing that a significant majority of plan participants do not approach out-of-pocket maximum cap levels, we recommend that DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

5. *Expand the applicability of annual deductible and co-insurance obligations to frequently utilized laboratory and other ancillary services.*
6. *Include a co-payment obligation for all emergency room visits that do not result in admittance as a hospital inpatient.*

Consumer Information

In conjunction with the recommended expansion of deductible and co-insurance obligations to frequently utilized laboratory and other ancillary services, it is essential that DHR provide County health plan participants with the information necessary to make informed pricing decisions in their selection of providers. More subjective issues of perceived quality should be left to the individual consumer, as it is presently. Similarly, in conjunction with the recommended application of a co-pay obligation for emergency room visits, it is important to provide plan participants with information on the availability of more cost-effective urgent care facilities. Therefore, we recommend that DAS, in

cooperation with the Labor/Management Health Care Cost Containment Committee:

7. *Work with Humana to identify low-cost providers for a variety of health care services and disseminate such information to County employees and retirees through its web site, a toll-free telephone number, and other methods.*

Prescription Drug Co-Pays

Since prescription drug co-pays are not included in the out-of-pocket maximum cap limits, we reviewed 2003 claims data to determine the impact of these costs on County plan participants. A summary of this data is presented as **Table 17**.

Plan Participant Class	Rx Co-Pay Amounts Incurred by at Least 90% of Participant Class	
	Single	Family
Employees	\$600 or less	\$900 or less
Retirees Under 65	\$800 or less	\$1,200 or less
Retirees 65+	\$900 or less	\$1,400 or less

Source: Humana 2003 Claims Paid Database.

While prescription drug costs can result in sizeable total annual expenses, the data in **Table 17** shows that the great majority of Conventional Plan participants have not incurred catastrophic financial consequences from prescription co-pays. This information should be taken into consideration as Conventional Plan design changes are contemplated.

Medicare Coordination of Benefits Issues

It has been suggested that the method by which Milwaukee County coordinates health care coverage with Medicare for eligible retirees does not properly obtain maximum benefits for the County and may therefore be a potential source of significant

Claims processed and paid in 2003 included Medicare COB offsets totaling \$13.2 million.

additional savings. However, our review of 2003 claims data and procedures used by Humana, the County's Third Party Administrator, to implement Medicare COB suggests there is no such opportunity for significant additional savings.

As previously noted, claims processed and paid in 2003 included Medicare COB offsets totaling \$13.2 million. The County's total 2003 payments for retirees aged 65+ was \$11.4 million. This total included \$6.7 for prescription drugs, for which no Medicare COB is available. Thus, the County obtained Medicare COB offsets of \$13.2 million on claims for which it paid just \$4.7 million.

To estimate the potential for increasing the applicability of Medicare COB, we segregated within the 2003 claims database all claims containing hospital and physicians' charges for retirees aged 65+ that contained no COB offsets. This resulted in the identification of claims totaling about \$2.8 million in covered charges, for which the County obtained discounts of about \$1.2 million and, after patient obligations and other adjustment, resulted in \$1.5 million in County payments.

When the County pays remaining covered charges after Medicare COB, the effective discount rate achieved (Total County payment/Total Covered Charges) averages about 80% to 85% of covered charges. There have been assertions made that the County was not properly coordinating benefits with Medicare and, instead, paying full covered charges at a potential cost of millions of dollars annually. In fact, when a provider does not accept Medicare assignment, Humana applies its contractual discount rates. Of the \$2.8 million of non-COB claims identified, the County paid less than \$150,000 for claims by providers outside of the Humana PPO nationwide network, for which no discounts were applied. As noted, the County obtained \$1.2 million in discounts for these non-COB claims. Without investigating the specific nature of each claim for which no

Medicare COB was obtained, we cannot determine whether actual COB offsets were, in fact, 'missed.'

For instance, we noted several claims contained charges for specific therapeutic procedures which are not covered by Medicare, and others were in our universe as a result of a patient reaching the age of 65 shortly after an episode of care, but before the claim was processed. Therefore, they are in our database as a Medicare eligible patient, but they were not in fact eligible at the time the service was provided. It should be noted that Humana has Medicare coverage guidelines that it uses to screen potential COB claims. Based on these observations, it is probable that a portion of the claims were not eligible for Medicare reimbursement. Consequently, we estimate the maximum exposure to the County for potential additional Medicare COB on 2003 claims was less than \$1 million.

County Practice Regarding Deductibles and Co-insurance

As currently applied, Milwaukee County uses a portion of the Medicare COB savings to pay all applicable deductible and co-insurance payments (excluding prescription drugs) on behalf of retirees aged 65+. An informal review of County ordinances by the County Corporation Counsel indicated that, because the County pays the Medicare premiums on behalf of retirees, it may be entitled to apply the benefits of coordination in any manner that does not detract from the retirees' benefit. Since the County has always applied health plan deductible and co-insurance obligations equally to employees and retirees under the age of 65, it would appear that the present method of Medicare COB provides superior benefit to retirees aged 65+. We estimate that, if current deductible and co-insurance obligations were applied to retirees aged 65+, it would have reduced County payments approximately \$885,000 in 2003. Further savings might occur, to the extent that deductibles and co-insurance payments have a deterrent effect upon utilization.

Milwaukee County uses a portion of the Medicare COB savings to pay all applicable deductibles and co-insurance payments (excluding prescription drugs) on behalf of retirees aged 65+.

To help reduce health care costs and create some financial stake in the health care choices made by retirees aged 65+, we recommend DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

8. *Consider altering the current administrative practice of excluding retirees aged 65+ from applicable deductible and co-insurance obligations, thus providing them the same benefit level as employees and retirees under the age of 65.*

Section 4: Milwaukee County Health Care Cost Oversight

Third Party Administrator System of Internal Controls

An important aspect of the Milwaukee County conventional health care plan is the performance of the Third Party Administrator (TPA) hired by the County to effectively process, adjudicate and pay claims submitted on behalf of employees and eligible retirees in conformance with plan benefits.

To evaluate the performance of Humana in performing basic TPA duties, we obtained claims data for 2003 and conducted independent data processing tests. These tests were developed to determine whether or not appropriate internal controls and data processing edits are in place to ensure:

- Duplicate payments are prevented.
- Appropriate discounts are applied.
- Appropriate exclusions (non-covered services) are identified and applied.
- Coordination of Benefits (private insurance as well as Medicare) is properly identified and applied.

We spent several weeks working with a large data dump of 2003 claims processed and paid in 2003, comprised of more than 460,000 claims. We consulted Humana technical staff and made several external checks on items such as enrollments, County payments and other sources of County health care information. We performed several tests on a limited number of sample claims and found Humana's system of internal controls performing effectively with respect to each of the above-referenced items. During the course of our data analysis, with one exception, we found only minor instances of data entry errors.

The exception noted involved the application of appropriate discount rates for the Aurora Direct EPO network, for both hospital and physician charges, during the initial quarter of implementing the new health care option. We identified a number of EPO claims that were processed at the lower PPO discount rate of 10%, rather than the 30%-35% applicable EPO discount rates. Discussions with Humana indicate that the EPO rates were not finalized in writing at the beginning of 2003 and there was some initial confusion between Humana and Aurora on the appropriate level of discounts for EPO services. These issues were quickly resolved, but we identified approximately \$35,000 in potential additional discounts that may be due to Milwaukee County from Aurora. We have provided the questioned claims to Humana for re-processing and adjustments as appropriate.

County Oversight of Program

The Division of Human Resources is ultimately accountable for monitoring Humana's performance, ensuring compliance with contract terms, and overall administration of the Milwaukee County employee health care benefit.

As previously described, Humana, in its role as TPA, has responsibility for fulfilling its contractual obligations related to administration of the Milwaukee County Conventional Health Care Plan. However, the Division of Human Resources is ultimately accountable for monitoring Humana's performance, ensuring compliance with contract terms, and overall administration of the Milwaukee County employee health care benefit. DHR has vested this oversight responsibility with its Employee Benefits office.

As depicted in the administrative services agreement, Humana has been contracted to perform claims processing services and to provide access to its ChoiceCare (PPO) network of providers. Under this same contract, Humana is also engaged to administer claims associated with the Aurora Direct (EPO) network.

Generally, the claims processing services required of Humana involve its review of claims to determine whether individual claims have been submitted timely and properly filed and that the

amount of the claim is in accordance with provisions of the health care plan. Ultimately, Humana, on behalf of the County, disburses benefit payments to service providers.

The agreement includes certain performance standards for claims processing and specifies duties associated with rejected claims, reporting requirements, and various other responsibilities.

Ideally, proper contract administration would entail a structured oversight plan to formally monitor Humana's performance, ensure compliance with contract terms, and to gauge the overall administration of the employee health care benefit by the contractor. Such a plan could take the form of a written set of procedures, preferably incorporating features such as a comprehensive checklist and periodic scorecard.

While contract oversight is performed to some extent by Employee Benefits staff, a formalized oversight plan has not been developed, according to the Employee Benefits and Services Manager (Benefits Manager), due to the narrow window of time within which the health care contracts were finalized for 2003 and the limited staffing resources available in the employee benefits area to perform comprehensive contract oversight functions.

Wellness Initiatives

Studies have confirmed that a healthier workforce means a reduction in health care claims and other costs associated with poor health such as increased absenteeism and reduced productivity. Many studies also report that companies realize significant financial payback on expenditures incurred to improve the health of employees:

Studies have confirmed that a healthier workforce means a reduction in health care costs.

- Johnson & Johnson reported that it spends \$4.5 million each year on its comprehensive preventative health care programs but it estimates that without these programs their medical bills would be at least \$13 million higher.
- Providence Everett Medical Center reports that it saved an estimated \$3 million, with a cost benefit ratio of 1 to 3.8 over nine years of an outcomes-based employee wellness program.
- A medical claims-based study of 72,000 individuals insured through 285 Wisconsin School Districts found a lower demand for medical services among those with access to disease prevention and self-care programs, saving as much as \$4.75 for each \$1 spent.
- With lower health care claims, medical costs decreased 16% for employees in the City of Mesa, Arizona who participated in its comprehensive health promotion program, yielding the city a realized return of \$3.60 for every dollar invested.

Given the cost savings potential associated with employees who maintain good health, employers have the opportunity to manage costs through employee health improvement (wellness) initiatives, especially in an environment of escalating health care costs. Milwaukee County, with health care plans that offer few features specifically aimed at promoting employee wellness, is in a position to take full advantage of the benefits attainable through implementation of an effective wellness program.

For 2003, just 4% of the plan participants filing claims (about 500 enrollees and dependents) accounted for 40% of the total health care costs.

Data suggests Milwaukee County could benefit from an aggressive wellness initiative. For 2003, just 4% of the plan participants filing claims (about 500 enrollees and dependents) accounted for 40% of the total health care costs.

Although there are a number of established wellness program packages available through various consultants, adoption of a wellness program initiative should be the result of careful analysis and strategic planning specific to the needs of Milwaukee County. Ultimately, consideration should be given only to wellness programs designed as a comprehensive benefit,

which includes well-defined and measurable goals, and is easily integrated into the County's health care plans.

Recently, Humana announced that it has formed a partnership with a health care services company, Gordian Health Solutions, to offer its self-insured customers a program designed to help employers reduce health care costs through identification and prevention of health risks among employees.

To take advantage of potential savings opportunities available from employee wellness initiatives, we recommend DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

9. *Explore and evaluate employee wellness programs that have the potential to achieve health care savings at Milwaukee County. As a starting point, the County should evaluate the program offered in partnership with Humana.*

Plan Member Education

One aspect of employee health that has received little attention but should be pursued because it can result in potential cost savings is County Health Care Plan participant communications. Currently, health care communication efforts are essentially limited to the dissemination of open enrollment information and responding to day-to-day questions posed by employees. However, much could be achieved through regular communications with plan participants.

A communications program could be used to educate plan participants about becoming better health care consumers who are more aware of alternatives when making health care choices. For instance, through effective communications, plan participants could be educated about generic vs. brand name drug cost differentials and made aware of the additional savings available through the use of mail order drug services.

A communication program could be used to educate plan participants about becoming better health care consumers.

Plan participant communications could also be used to promote the benefits of participation in a disease management program, an area that can yield significant cost savings over time, particularly since prior County efforts in this regard have attracted only limited employee participation.

Further, effective communications could be used to inform employees and retirees about the information and features available on the Humana website and provide other helpful information related to the health care plans. For instance, a link could be provided to a website maintained by the Wisconsin Department of Health and Family Services that presents comparisons of average costs charged by local area providers for a variety of medical procedures.

To improve Milwaukee County health care plan participant awareness of the cost implications of health care choices, and to assist in providing information about cost-effective health care options, we recommend DAS, in cooperation with the Labor/Management Health Care Cost Containment Committee:

- 10. Pursue health care cost savings through the development and implementation of a formal participant communications plan designed to provide information about health care alternatives, promote greater participation in the disease management program and healthier lifestyles, connect participants to the information and features available on the Humana website, and provide other useful healthcare information.*

Potential Staffing Deficiency

As noted in the **Background** section of this report, total staffing allocated to administration of the employee health care benefit is limited to a part-time (about 40%) commitment from the Benefits Manager, along with the support of two full-time staff positions. With his time split between the Employee Retirement System and Employee Benefits and limited staff available to which work can be delegated, the Benefits Manager acknowledged he is constrained in his ability to address many of the larger, strategic

With limited staff the Benefits Manager is constrained in his ability to address many of the larger, strategic issues associated with administration of the employee health care benefit.

issues associated with administration of the employee health care benefit, including contract oversight.

Although we did not conduct a staffing assessment of employee benefits function, we did make note of the magnitude of the operations over which a single manager has responsibility and the limited number of support staff available to that manager. Specifically, the Benefits Manager is responsible for administration of the Employee Retirement System (management of assets estimated in excess of \$1.4 billion), administration of medical plans (payments in excess of \$80 million annually) and the on-going analysis of numerous other employee benefits.

Considering the tremendous and escalating cost to the County of providing health care benefits to employees and retirees, as described in this report, it is essential that the Benefits Manager is positioned to devote more time to pursue strategic efforts to address concerns associated with the County's health care benefit, including implementation of recommendations made in this report as well as other cost savings initiatives. Therefore, we recommend that DAS:

- 11. Assess the adequacy of the staffing levels committed to the administration and oversight of the County's health care benefit to enable the Benefits Manager to expand the oversight of health care contracts and pursue potential cost savings initiatives.*

Section 5: Potential Cost Containment Opportunities and Implementation Strategies

Certain prominent features of Milwaukee County's Conventional Health Care Plan design contribute significantly to its overall cost.

Our audit work has included a review of industry literature, comparison of the Milwaukee County employee health care benefit plan design with that of other Wisconsin public entities, analysis of 2003 claims data and the underlying cost drivers inherent in the County's health care obligation, as well as discussion with health care plan administrators and consultants.

As noted in **Section 3** of this audit report, certain prominent features of Milwaukee County's Conventional Health Care Plan design contribute significantly to its overall cost. For instance, the wide-open nature of the plan permits Milwaukee County employees and eligible retirees to choose their health care facilities and providers without restriction and with very little personal financial consequence. This feature has undoubtedly played a role in creating the current scenario in which the greatest amounts of services provided to Milwaukee County Conventional Plan participants are rendered at area facilities offering the lowest contractual discounts.

However, because of the limited applicability of deductibles and co-insurance obligations in the present design of Milwaukee County's Conventional Plan, it may be possible to adjust the plan to accomplish a desired leveraged reduction of overall health care costs, without major impact on total employee out-of-pocket expenses.

We have identified several potential cost containment strategies for the consideration of Milwaukee County policymakers and labor officials.

Cost Containment Strategies

Short-Term Strategies

A. Obtain labor/management buy-in to cost containment measures. Specifics as to implementation can be negotiated much more amicably once agreement in concept is reached as to overall strategies to help control overall costs.

B. Structure consumer out-of-pocket costs to make them more responsive to health care cost issues. Structured properly, this will tend to reduce both utilization and consumers' use of higher cost items such as brand name prescription drugs and emergency room treatments. The goal of this strategy is not to merely shift health care costs from Milwaukee County to plan participants. Rather, it is to influence consumer behavior to reduce overall costs. The data showing Milwaukee County plan participants' relatively low levels of deductible and co-insurance payments in relation to maximum cap levels demonstrates the limited applicability of those out-of-pocket obligations to plan benefits. Accordingly, they have little deterrent effect on health care utilization, choice of provider and, consequently, overall cost.

Milwaukee County's current structure of out-of-pocket cost obligations have little deterrent effect on health care utilization, choice of provider and, consequently, overall cost.

To accomplish this desired result, the County should:

- Increase annual deductible levels.
- Broaden applicability of co-insurance obligations to such items as:
 - Lab work.
 - Radiology.
 - Other areas that may involve wide variances in provider pricing and ample consumer choice.
- Assess a modest co-payment for Emergency Room visits. The co-payment would apply to all emergency room visits that do not result in hospital admittance. If a true emergency exists, consumers should accept, in the larger scheme of things, a nominal contribution towards extraordinary health care costs. However, even a modest co-pay will encourage plan participants to schedule much more cost-effective, regular office visits or treatment at an urgent care facility in the absence of a true emergency.

Implementation Strategies

Certain pre-tax instruments provide a mechanism to help absorb some of the impact of increased out-of-pocket expenses.

- **Index or lock in an escalator on deductible and out-of-pocket maximums.** In an environment of escalating prices, stagnant annual deductible and co-insurance obligation limits have diminished impact. An effective strategy to combat this erosion is to make modest, incremental increases in consumer out-of-pocket obligations.
- **Reduce current out-of-pocket maximum cap levels.** Since 90% of plan participants currently pay only about one-third of the out-of-pocket maximums, a strategy could be developed to increase the applicability of deductibles and co-insurance to raise the overall amount of revenue generated, but reduce the maximum cap levels so that the relatively small minority of individuals reaching the upper level of the current limits are afforded some relief. Once revised, these limits could be indexed or subject to an escalator clause, as noted above.
- **Create a Health Reimbursement Arrangement (HRA) or Health Savings Arrangement (HSA).** These pre-tax instruments provide a mechanism to help absorb some of the impact of increased out-of-pocket expenses. Individual accounts are established whereby plan participants can use the funds in these accounts to pay eligible health care costs not covered by their health care plans, including deductibles, co-insurance and co-pays. With both of these arrangements, unused portions can 'roll over' into the following calendar year. There are two main distinctions between an HRA and an HSA:
 - An HRA is funded entirely by the employer. One strategy for softening the blow of increased out-of-pocket expenses is to establish a commitment for an employer-funded HRA that could decrease annually as deductibles increase. In this manner, the employer can reduce the immediate impact of the increase to the employee, and because of the roll-over feature of HRAs, the employee can extend any unused proceeds of the fund into future years when the employer commitment diminishes.
 - An HSA is funded entirely by the employee, but is available only for plans with a minimum deductible of \$1,000 or more. Since Milwaukee County deductibles are currently set as low as \$150, this instrument may not be practical for immediate implementation, but could become an attractive option in the future as the deductible levels are gradually increased.

The County currently offers employees a Flexible Spending Account (FSA). FSAs are fully funded by employees on a pre-tax basis, but unspent proceeds revert to the employer and cannot be 'rolled over.'

The strategy of increasing the financial stake of consumers in their health care choices can only be effective if they are provided the pricing information necessary to make sound decisions.

C. Eliminate the current Aurora Direct EPO plan option and establish a negotiating stance in which the County is willing to exclude high-cost providers from its Conventional Plan unless prices are discounted to competitive rates. This would mean both labor and management would be willing to accept greater restrictions on provider choices to obtain concessions from high-cost providers.

D. Create an aggressive plan participant communications program and employee wellness program. The strategy of increasing the financial stake of consumers in their health care choices can only be effective if they are provided the pricing information necessary to make sound decisions.

Implementation Strategy

- **Establish and promote a list of low-cost providers from which Milwaukee County Conventional Health Care Plan participants can choose.** In conjunction with other proactive initiatives, this will require ongoing maintenance and may require additional staff resources on the part of DHR.

E. Make only modest increases in employee premiums. Co-insurance payments and, to a lesser extent, deductibles, affect utilization patterns; premiums do not. Further, retirees are not subject to premiums. Moreover, the growing and most costly demographic sector of the Conventional Health Plan, retirees under the age of 65, while not subject to premiums, are subject to annual deductible and co-insurance obligations.

F. Revise current administrative application of Medicare COB to ensure equitable treatment of all retirees (pre-Medicare and Medicare eligible) with respect to out-of-pocket costs. In addition to providing equitable treatment, this

change would create a financial stake in this group's health care choices that does not currently exist.

Long Term Strategies

Pooling purchasing power with other public entities to increase market leverage and obtain greater provider discounts is often suggested as a logical idea to reduce the cost of health care. However, in discussing this matter with the health care staff of local jurisdictions and health care consultants, the realities of such a joint venture make it difficult to implement.

Some of the problems of such an undertaking include:

- The involvement of several different collective bargaining units with different contract expiration cycles.
- Pre-existing provider preferences based on past experiences.
- Different workforce demographics and plan characteristics that could make uniform provider pricing difficult. In effect, some jurisdictions could end up subsidizing others.

While these difficulties are not necessarily insurmountable, overcoming them would require mustering the political will to bring many divergent interests together. Consequently, we view this as a potential long term strategy worth exploring, but not practical in the near term.

Implementation Strategy

- **Milwaukee County should assume a leadership role in developing the political will to develop labor/management coalitions with other local public entities to enhance the negotiating posture.**

Audit Scope

The objective of this audit was to conduct a review of the employee health plan benefit for the purpose of identifying additional insights and potential efficiencies regarding employee and retiree health care costs. The review was centered on the current benefit with a focus on future fiscal implications.

The audit was conducted in accordance with the standards set forth in the United States General Accounting Office Government Auditing Standards, with the exception of the standard relating to periodic peer review. We limited our review to the areas specified in this Scope Section. During the course of the audit we:

- Reviewed the terms of each of the County's plan options;
- Researched industry literature related to health care;
- Surveyed local and state governmental jurisdictions regarding health plan design for comparison to Milwaukee County;
- Reviewed reports issued by external consultants specific to the Milwaukee County health care benefit;
- Interviewed health care plan administrators and consultants;
- Researched County ordinances;
- Examined contracts between Milwaukee County and the health care service contractors;
- Analyzed 2003 claims data maintained by Humana; and
- Reviewed applicable County budget materials.

Page Information

Report Title: An Audit of the Milwaukee County Employee Health Care Benefit

Report Date: June 29, 2004

Page Title: Exhibit 2, Definitions of Health Insurance Terms

Page Number(s): 10 pages

This report page is not available in this website copy of the report. If you would like a copy of this page, please contact the Milwaukee county Department of Audit at:

Telephone:

(414) 278-4206

Email:

cremieszewski@milwcnty.com

Page Information

Report Title: An Audit of the Milwaukee County Employee Health Care Benefit

Report Date: June 29, 2004

Page Title: Exhibit 3, Comparison of Benefits

Page Number(s): 2 pages

This report page is not available in this website copy of the report. If you would like a copy of this page, please contact the Milwaukee county Department of Audit at:

Telephone:

(414) 278-4206

Email:

cremiszewski@milwcnty.com

Monthly Premium Information From Large Wisconsin Jurisdictions

				City of Milwaukee (Note 2)						State of Wisconsin		
	Milwaukee County (Note 1)			HMO		PPO	Milwaukee Public Schools (Note 3)		HMO			
	HMO	PPO	EPO	Aurora	CompcareBlue	Basic	PPO	EPO	Tier 1	Tier 2	PPO	
Active Employees												
Single Person Coverage:												
Total Premium	\$358.37	\$744.71	\$697.42	\$336.43	\$373.81	\$520.89	\$612.02	\$404.11	\$423.61	\$469.35	\$672.70	
Employer Share	\$278.37	\$664.71	\$617.42	\$336.43	\$336.43	\$470.89	\$612.02	\$404.11	\$405.61	\$422.35	\$572.70	
Employee Share	\$80.00	\$80.00	\$80.00	\$0.00	\$37.38	\$50.00	\$0.00	\$0.00	\$18.00	\$47.00	\$100.00	
Employee Percentage	22%	11%	11%	0%	10%	10%	0%	0%	4%	10%	15%	
Family Coverage:												
Total Premium	\$1,003.33	\$1,210.12	\$1,141.28	\$918.45	\$1,020.49	\$1,244.59	\$1,353.16	\$1,060.43	\$1,041.28	\$1,155.65	\$1,622.90	
Employer Share	\$903.33	\$1,110.12	\$1,041.28	\$918.45	\$918.45	\$1,144.59	\$1,353.16	\$1,060.43	\$996.28	\$1,038.15	\$1,372.90	
Employee Share	\$100.00	\$100.00	\$100.00	\$0.00	\$102.04	\$100.00	\$0.00	\$0.00	\$45.00	\$117.50	\$250.00	
Employee Percentage	10%	8%	9%	0%	10%	8%	0%	0%	4%	10%	15%	
Retired Employees												
Single Person w/o Medicare:												
Total Premium	\$645.01	\$744.71	\$697.42	\$336.43	\$373.81	\$860.45	\$607.63	\$406.48	\$433.30		\$672.70	
Employer Share	\$645.01	\$744.71	\$697.42	\$84.11	\$93.45	\$215.11	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$252.32	\$280.36	\$645.34	See Note 3	See Note 3	\$433.30		\$672.70	
Single Person w/ Medicare:												
Total Premium	\$286.70	\$412.08	\$380.19	\$264.67	\$294.11	\$397.63	\$353.58	\$423.97	\$346.39		\$370.30	
Employer Share	\$286.70	\$412.08	\$380.19	\$66.17	\$73.53	\$99.41	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$198.50	\$220.58	\$298.22	See Note 3	See Note 3	\$346.39		\$370.30	
Family Coverage w/o Medicare:												
Total Premium	\$1,805.99	\$1,210.12	\$1,141.28	\$918.45	\$1,020.49	\$1,541.07	\$1,342.51	\$1,063.33	\$1,063.62		\$1,622.90	
Employer Share	\$1,805.99	\$1,210.12	\$1,141.28	\$229.61	\$255.12	\$385.27	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$688.84	\$765.37	\$1,155.80	See Note 3	See Note 3	\$1,063.62		\$1,622.90	
Family w/ One Covered by Medicare:												
Total Premium	\$931.66	\$1,210.12	\$1,141.28	\$847.70	\$940.79	\$1,345.60	\$1,093.78	\$1,146.36	\$764.50		\$1,003.70	
Employer Share	\$931.66	\$1,210.12	\$1,141.28	\$211.92	\$235.20	\$336.40	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$635.78	\$705.59	\$1,009.20	See Note 3	See Note 3	\$764.50		\$1,003.70	
Family w/ Two Covered by Medicare:												
Total Premium	\$859.98	\$906.44	\$851.67	\$775.94	\$861.09	\$954.64	\$1,025.93	\$1,146.36	\$680.88		\$704.20	
Employer Share	\$859.98	\$906.44	\$851.67	\$193.98	\$215.27	\$238.66	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$581.96	\$645.82	\$715.98	See Note 3	See Note 3	\$680.88		\$704.20	
Single w/Dependents, w/o Medicare:												
Total Premium	N/A	N/A	N/A	\$918.45	\$1,020.49	\$1,286.53	N/A	N/A	\$1,063.62		\$1,622.90	
Employer Share	N/A	N/A	N/A	\$229.61	\$255.12	\$321.63	N/A	N/A	\$0.00		\$0.00	
Employee Share	N/A	N/A	N/A	\$688.84	\$765.37	\$964.90	N/A	N/A	\$1,063.62		\$1,622.90	
Single w/Dependents, w/ Medicare:												
Total Premium	N/A	N/A	N/A	\$847.70	\$940.79	\$812.10	\$585.06	N/A	\$764.50		\$1,003.70	
Employer Share	N/A	N/A	N/A	\$211.92	\$235.20	\$203.00	See Note 3	N/A	\$0.00		\$0.00	
Employee Share	N/A	N/A	N/A	\$635.78	\$705.59	\$609.01	See Note 3	N/A	\$764.50		\$1,003.70	
Couple w/ One Covered by Medicare:												
Total Premium	\$645.07	\$885.25	\$831.45	\$601.10	\$667.92	\$1,178.04	\$1,003.40	\$1,146.39	\$764.50		\$1,003.70	
Employer Share	\$645.07	\$885.25	\$831.45	\$150.27	\$166.98	\$294.51	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$450.83	\$500.94	\$883.53	See Note 3	See Note 3	\$764.50		\$1,003.70	
Couple w/ Both Covered by Medicare:												
Total Premium	\$573.40	\$581.57	\$541.83	\$529.34	\$588.22	\$768.93	\$707.13	\$847.98	\$680.88		\$704.20	
Employer Share	\$573.40	\$581.57	\$541.83	\$132.33	\$147.05	\$192.23	See Note 3	See Note 3	\$0.00		\$0.00	
Employee Share	\$0.00	\$0.00	\$0.00	\$397.01	\$441.17	\$576.70	See Note 3	See Note 3	\$680.88		\$704.20	
Notes:												
Note 1 - Qualifying retirees hired before 1994 contribute nothing to the County's monthly health care premium. Employees hired after 1993 pay the full premium upon retirement, offset by the value of their accumulated sick leave balances.												
Note 2 - These are the rates for retirees over 65, representing 75% of the cost of a Medicare supplement. General City retirees 65 years old or less are eligible for free insurance until they reach 65. The amount paid by fire & police retirees under 65 is based on their sick leave balances. Their maximum payment is 35% of the cost of the basic plan.												
Note 3 - Qualifying retirees pay the difference between the current monthly premium and premium in effect at the time of retirement.												

**Survey of Wisconsin Counties
Summary of Employee Contributions to
Monthly Health Care Premiums**

County	HMO		PPO		Point-of-Service	
	Single	Family	Single	Family	Single	Family
Milwaukee County	\$80.00	\$100.00	\$80.00	\$100.00	N/A	N/A
Adams	N/A	N/A	\$54.26	\$130.12		
Ashland	N/A	N/A	\$39.50	\$65.00		
Barron	\$41.74	\$103.42	\$118.95	\$254.46		
Bayfield	N/A	N/A	10%	10%		
Brown	N/A	N/A	\$19.12	\$50.99		
Buffalo	N/A	N/A	\$0.00	\$215.10		
Burnett	N/A	N/A	\$46.20	\$116.67		
Calumet	\$16.15	\$44.50	N/A	N/A	\$23.36	\$64.38
Clark	N/A	N/A	15%	15%		
Crawford	\$0.00	\$0.00	N/A	N/A		
Dane	\$0.00	\$0.00	\$0.00	\$46.46		
Dodge	\$17.33	\$42.74	N/A	N/A		
Door	N/A	N/A	\$47.40	\$117.50		
Douglas	N/A	N/A	\$0.00	10%		
Dunn	N/A	N/A	\$21.00	\$54.00		
Eau Claire	\$11.62	\$30.21	\$12.59	\$32.74		
Florence	N/A	N/A	\$29.82	\$72.18		
Fond du Lac	N/A	N/A	\$19.34	\$65.38		
Forest	N/A	N/A	\$47.23	\$94.46		
Grant	\$0.00	15%	N/A	N/A		
Green	N/A	N/A	\$49.00	\$121.00		
Green Lake	N/A	N/A	\$20.00	\$40.00		
Iowa	\$0.00	\$0.00	N/A	N/A		
Iron	N/A	N/A	\$474.52	\$1,048.85		
Jackson	N/A	N/A	\$9.00	\$20.40		
Jefferson	N/A	N/A	\$15.00	\$30.00		
Juneau	\$0.00	\$0.00	N/A	N/A		
Kenosha	N/A	N/A	N/A	N/A	\$0.00	\$0.00
Kewaunee	N/A	N/A	\$0.00	\$91.70		
La Crosse	N/A	N/A	\$43.07	\$107.41		
Lafayette	\$0.00	\$93.00	N/A	N/A		
Langlade	N/A	N/A	\$0.00	\$0.00		
Lincoln	N/A	N/A	\$15.00	\$30.00		
Manitowoc	N/A	N/A	\$25.00	\$63.00		
Marquette	15%	15%	N/A	N/A		
Monroe	\$54.20	\$127.40	N/A	N/A		
Oconto	N/A	N/A	\$55.57	\$136.40		
Oneida *	N/A	N/A	\$23.45	\$62.30		
Outagamie	\$17.00	\$45.00	N/A	N/A		
Pepin	\$0.00	\$43.26	\$0.00	\$303.06		
Pierce	\$34.88	\$87.76	\$35.28	\$91.76		
Racine	N/A	N/A	\$49.60	\$138.80		
Richland	\$0.00	\$0.00	N/A	N/A		
Rock	N/A	N/A	\$0.00	\$0.00		
Rusk	\$46.44	\$114.11	N/A	N/A		
Sawyer	N/A	N/A	\$47.11	\$131.90		
St. Croix	N/A	N/A	\$90.00	\$90.00		
Trempealeau	\$38.12	\$94.74	N/A	N/A		
Vernon	\$65.18	\$161.22	N/A	N/A		
Vilas	N/A	N/A	\$0.00	\$100.12		
Walworth	N/A	N/A	\$0.00	\$0.00		
Washburn	N/A	N/A	\$47.19	\$120.64		
Washington	N/A	N/A	\$60.94	\$159.82		
Waukesha	\$48.21	\$125.34	N/A	N/A	\$41.54	\$110.06
Waupaca	N/A	N/A	\$46.61	\$109.00		
Waushara	N/A	N/A	\$83.46	\$173.88		
Winnebago	\$21.31	\$50.00	\$25.65	\$50.00	\$24.70	\$64.20

Note * - Oneida County's plan is actually an indemnity plan, but for presentation purposes we have included it under the PPO category

**Survey of Wisconsin Counties
Annual Employee Payments for Deductibles and Coinsurance**

Annual Deductibles

County	HMO	PPO - In Network		PPO - Out of Network	
		Per Person	Family Max	Per Person	Family Max
Milwaukee County	\$0	\$150	\$450	\$400	\$1,200
Adams	N/A	\$0	\$0	\$0	\$0
Ashland	N/A	\$200	\$400	\$450	\$1,150
Barron	\$0	\$250	NR	\$1,000	\$2,000
Bayfield	N/A	\$200	\$600	NR	NR
Brown	N/A	\$50	\$150	\$200	\$600
Buffalo	N/A	\$100	\$200	\$100	\$200
Burnett	N/A	\$250	\$750	NR	NR
Calumet	\$0	POS	POS	POS	POS
Clark	N/A	\$100	\$300	NR	NR
Crawford	\$0	N/A	N/A	N/A	N/A
Dane	\$0	\$100	\$200	NR	NR
Dodge	\$0	NA	NA	NA	N/A
Door	N/A	\$100	\$200	NR	NR
Douglas	N/A	\$0	\$0	\$0	\$0
Dunn	N/A	\$150	\$450	\$900	\$1,500
Eau Claire	\$0	\$100	\$200	\$750	\$2,200
Florence	N/A	\$250	\$500	\$650	\$1,500
Fond du Lac	N/A	\$200	\$400	\$300	\$600
Forest	N/A	\$200	\$600	NR	NR
Grant	\$0	N/A	N/A	N/A	N/A
Green	N/A	\$400	\$800	\$500	\$1,000
Green Lake	N/A	\$500	NR	\$1,000	NR
Iowa	\$0	N/A	N/A	N/A	N/A
Iron	N/A	\$100	\$300	NR	NR
Jackson	N/A	\$250	\$500	\$500	\$1,000
Jefferson	N/A	\$250	\$500	NR	NR
Juneau	\$0	N/A	N/A	N/A	N/A
Kenosha	Point-of-Service plan				
Kewaunee	N/A	\$200	\$500	NR	NR
La Crosse	N/A	\$0	\$0	\$0	\$0
Lafayette	\$0	N/A	N/A	N/A	N/A
Langlade	N/A	\$200	\$600	\$400	\$1,200
Lincoln	N/A	\$300	\$900	\$500	\$1,500
Manitowoc	N/A	\$250	\$500	\$450	\$1,100
Marquette	\$0	N/A	N/A	N/A	N/A
Monroe	\$0	N/A	N/A	N/A	N/A
Oconto	N/A	\$500	\$1,000	NR	NR
Oneida	Indemnity Plan				
Outagamie	\$0	N/A	N/A	N/A	N/A
Pepin	\$0	\$250	NR	NR	NR
Pierce	\$0	\$100	\$200	\$150	\$250
Racine	N/A	\$100	\$200	NR	NR
Richland	\$0	N/A	N/A	N/A	N/A
Rock	N/A	\$100	\$300	\$425	\$900
Rusk	\$100/ \$300 fam	N/A	N/A	N/A	N/A
Sawyer	N/A	\$100	\$300	NR	NR
St. Croix	N/A	\$0	\$0	\$0	\$0
Trempealeau	\$0	N/A	N/A	N/A	N/A
Vernon	\$0	N/A	N/A	N/A	N/A
Vilas	N/A	\$200	\$600	NR	NR
Walworth	N/A	\$150	\$450	\$250	\$750
Washburn	N/A	\$100	\$300	\$100	\$300
Washington	N/A	\$250	\$750	NR	NR
Waukesha	\$0	POS	POS	POS	POS
Waupaca	N/A	\$0	\$0	\$200	\$400
Waushara	N/A	\$110	\$330	\$110	\$330
Winnebago	\$0	\$500	\$1,000	NR	NR

Legend:

POS - Point-of-Service plan

NR - No response to this particular piece of data, or we were unable to clarify the response.

N/A - Not applicable

Survey of Wisconsin Counties
Annual Employee Payments for Deductibles and Coinsurance

County	Annual Coinsurance									
	HMO		PPO - In Network				PPO - Out of Network			
	Per Person	Per Family	Per Person Pct.	Per Person Maximum	Per Family Pct.	Per Family Maximum	Per Person Pct.	Per Person Maximum	Per Family Pct.	Per Family Maximum
Milwaukee County	\$0	\$0	10%	\$1,500	10%	\$2,500	20%	\$1,500	20%	\$2,500
Adams	N/A	N/A	10%	NR	10%	NR	20%	NR	20%	NR
Ashland	N/A	N/A	10%	\$450	10%	\$1,150	NR	NR	NR	NR
Barron	\$0	\$0	NR	\$500	NR	NR	NR	NR	NR	NR
Bayfield	N/A	N/A	0%	\$0	0%	\$0	10%	\$400	10%	\$1,200
Brown	N/A	N/A	0%	\$550	0%	\$1,650	20%	\$400	20%	\$1,200
Buffalo	N/A	N/A	0%	\$0	0%	\$0	10%	\$200	10%	NR
Burnett	N/A	N/A	10%	\$250	10%	\$500	30%	\$750	30%	\$1,500
Calumet	\$307	\$846	POS	POS	POS	POS	POS	POS	POS	POS
Clark	N/A	N/A	10%	NR	10%	NR	20%	NR	20%	NR
Crawford	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dane	\$0	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0
Dodge	\$500	\$500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Door	N/A	N/A	NR	NR	NR	NR	NR	NR	NR	\$0
Douglas	N/A	N/A	10%	\$1,100	10%	\$1,200	30%	\$1,100	30%	\$1,200
Dunn	N/A	N/A	5%	NR	5%	NR	NR	NR	NR	NR
Eau Claire	\$0	\$0	0%	\$100	0%	\$100	20%	\$750	20%	\$2,200
Florence	N/A	N/A	0%	NR	0%	NR	20%	NR	20%	NR
Fond du Lac	N/A	N/A	10%	\$200	10%	\$400	30%	\$600	30%	\$1,200
Forest	N/A	N/A	0%	\$200	0%	\$600	20%	\$600	20%	\$1,200
Grant	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Green	N/A	N/A	0%	\$0	0%	\$0	10%	\$250	10%	\$700
Green Lake	N/A	N/A	NR	\$500	NR	\$1,000	NR	\$1,000	NR	\$2,000
Iowa	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Iron	N/A	N/A	10%	\$250	10%	\$500	30%	\$750	30%	\$1,500
Jackson	N/A	N/A	10%	\$200	10%	\$600	20%	\$400	20%	\$1,200
Jefferson	N/A	N/A	10%	\$500	10%	\$1,000	30%	NR	30%	NR
Juneau	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kenosha	Point-of-Service plan									
Kewaunee	N/A	N/A	10%	\$600	10%	\$1,200	20%	NR	20%	NR
La Crosse	N/A	N/A	10%	\$350	10%	\$1,050	30%	NR	30%	NR
Lafayette	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Langlade	N/A	N/A	10%	\$400	10%	\$1,200	20%	\$600	20%	\$1,800
Lincoln	N/A	N/A	20%	\$700	20%	\$1,300	30%	\$1,000	30%	\$2,100
Manitowoc	N/A	N/A	0%	\$0	0%	\$0	10%	\$200	10%	\$600
Marquette	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Monroe	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Oconto	N/A	N/A	0%	\$0	0%	\$0	20%	\$400	20%	\$800
Oneida	Indemnity Plan									
Outagamie	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pepin	\$0	\$0	20%	\$1,000	15%	\$2,000	NR	NR	NR	NR
Pierce	\$0	\$0	20%	NR	20%	NR	NR	NR	NR	NR
Racine	N/A	N/A	10%	\$500	10%	\$1,000	25%	NR	25%	NR
Richland	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rock	N/A	N/A	25%	\$325	25%	\$600	NR	NR	NR	NR
Rusk	\$100	\$300	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sawyer	N/A	N/A	0%	\$100	0%	\$300	20%	\$300	20%	\$1,300
St. Croix	N/A	N/A	10%	\$200	10%	\$200	NR	NR	NR	NR
Trempealeau	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vernon	\$0	\$0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vilas	N/A	N/A	10%	\$200	10%	\$200	20%	\$400	20%	\$400
Walworth	N/A	N/A	10%	\$400	10%	\$1,200	20%	\$750	20%	\$2,250
Washburn	N/A	N/A	0%	\$0	0%	\$0	10%	\$200	10%	\$500
Washington	N/A	N/A	0%	\$250	0%	\$750	20%	\$2,750	20%	\$5,750
Waukesha	\$0	\$0	POS	POS	POS	POS	POS	POS	POS	POS
Waupaca	N/A	N/A	10%	\$500	10%	\$1,000	20%	\$1,200	20%	\$1,400
Waushara	N/A	N/A	10%	\$200	10%	\$500	20%	\$400	20%	\$1,000
Winnebago	\$0	\$0	0%	NR	0%	NR	20%	NR	20%	NR

Legend:
 POS - Point-of-Service plan
 NR - No response to this particular piece of data, or we were unable to clarify the response.
 N/A - Not applicable

**Survey of Wisconsin Counties
Annual Employee Payments for Deductibles and Coinsurance**

**Maximum PPO Deductibles &
Coinsurance Costs**

County	In Network		Out of Network		Examples of Additional Co-Payment Costs (subject to deductible and coinsurance limits)
	Single	Family	Single	Family	
Milwaukee County	\$1,500	\$2,500	N/A	N/A	
Adams	NR	NR	NR	NR	
Ashland	\$450	\$1,150	NR	NR	
Barron	\$1,250	\$2,250	NR	NR	\$40 co-pay for emergency room, waived if admitted
Bayfield	\$200	\$600	\$400	\$1,200	
Brown	\$600	\$1,800	\$600	\$1,800	\$10 co-pay for office visits, 20% for ER charges
Buffalo	NR	NR	NR	NR	
Burnett	\$500	\$1,250	\$1,000	\$2,250	\$50 co-pay for emergency room
Calumet	POS	POS	POS	POS	
Clark	\$2,500	\$2,500	\$2,500	\$2,500	
Crawford	N/A	N/A	N/A	N/A	
Dane	\$100	\$200	\$100	\$200	
Dodge	N/A	N/A	N/A	N/A	\$40 co-pay for emergency room; 20% co-pay for med. equip.
Door	\$200	\$1,200	\$400	\$1,000	
Douglas	\$1,100	\$1,200	\$1,100	\$1,200	
Dunn	\$500	\$750	\$900	\$1,500	\$20 co-pay for office visit
Eau Claire	\$100	\$300	\$850	\$2,500	\$10 co-pay for office visit
Florence	\$250	\$500	\$650	\$1,500	
Fond du Lac	\$200	\$400	\$600	\$1,200	
Forest	\$200	\$600	\$2,000	\$3,000	\$20 co-pay office visit; cap on out-of-pocket drug co-pay
Grant	N/A	N/A	N/A	N/A	
Green	\$400	\$800	\$750	\$1,700	9 identified co-pays
Green Lake	\$500	\$1,000	\$1,000	\$2,000	
Iowa	N/A	N/A	N/A	N/A	
Iron	\$250	\$500	\$750	\$1,500	
Jackson	\$450	\$1,100	\$900	\$2,200	\$20 co-pay for office visits
Jefferson	NR	NR	NR	NR	
Juneau	N/A	N/A	N/A	N/A	
Kenosha	Point-of-Service plan				
Kewaunee	\$600	\$1,200	N/A	N/A	
La Crosse	\$350	\$1,050	N/A	N/A	
Lafayette	N/A	N/A	N/A	N/A	
Langlade	\$400	\$1,200	\$600	\$1,800	
Lincoln	\$700	\$1,300	\$1,100	\$2,100	\$20 co-pay for office visit
Manitowoc	\$450	\$1,100	NR	NR	
Marquette	N/A	N/A	N/A	N/A	
Monroe	N/A	N/A	N/A	N/A	\$30 co-pay for office visits, \$50 for emergency room
Oconto	\$500	\$800	\$900	\$1,800	
Oneida	Indemnity Plan				
Outagamie	N/A	N/A	N/A	N/A	
Pepin	\$1,000	\$2,000	N/A	N/A	
Pierce	NR	NR	NR	NR	\$10 co-pay for office visits, \$25 for emergency room
Racine	\$500	\$1,000	N/A	N/A	
Richland	N/A	N/A	N/A	N/A	
Rock	\$425	\$900	N/A	N/A	
Rusk	\$325	\$600	\$425	\$900	
Sawyer	\$300	\$1,300	N/A	N/A	
St. Croix	N/A	N/A	N/A	N/A	\$10 co-pay for office visits, \$45 - \$50 for emergency room
Trempealeau	N/A	N/A	N/A	N/A	HMO has \$500 maximum out-of-pocket per person
Vernon	N/A	N/A	N/A	N/A	
Vilas	\$200	\$400	N/A	N/A	
Walworth	\$550	\$1,650	\$1,000	\$3,000	
Washburn	\$100	\$300	\$300	\$800	
Washington	250	\$750	\$2,750	\$5,750	
Waukesha	POS	POS	POS	POS	HMO has some unspecified co-pays.
Waupaca	\$500	\$1,000	\$1,200	\$1,400	
Waushara	\$310	\$830	\$510	\$1,330	
Winnebago	NR	NR	NR	NR	\$10 - \$20 co-pay for office visits, \$50 for emergency room

Legend:

POS - Point-of-Service plan

NR - No response to this particular piece of data, or we were unable to clarify the response.

N/A - Not applicable

**Survey of Wisconsin Counties
Co-payments for Prescription Drugs**

County	HMO			PPO			HMO or PPO Min./ Maximum	Per
	Generic	Brand	Non-Formulary	Generic	Brand	Non-Formulary		
Milwaukee County	\$5.00	\$10.00	\$25.00	10%	20%	N/A	\$3 min./ \$75 max	Rx
Adams	N/A	N/A	N/A	\$2.00	\$2.00	N/A	N/A	
Ashland	N/A	N/A	N/A	\$10.00	\$20.00	N/A	N/A	
Barron	\$5.00	\$15.00	\$35.00	\$5.00	\$15.00	\$35.00	\$300 single/ \$600 family	Year
Bayfield	N/A	N/A	N/A	\$10.00	\$20.00	\$30.00	N/A	
Brown	N/A	N/A	N/A	20%	20%	20%	\$2 min./ \$5.00 max.	Rx
Buffalo	N/A	N/A	N/A	\$5.00	\$20.00	N/A	\$100 single/ \$200 family	Year
Burnett	N/A	N/A	N/A	\$7.00	\$15.00	N/A	N/A	
Calumet	\$3.00	\$10.00	N/A	N/A	N/A	N/A	N/A	
Clark	N/A	N/A	N/A	15%	20%	25%	None	
Crawford	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	N/A	
Dane	\$6.00	\$10.00	N/A	\$6.00	\$10.00	N/A	\$20,000	Year
Dodge	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	N/A	
Door	N/A	N/A	N/A	\$5.00	\$10.00	N/A	\$150	Year
Douglas	N/A	N/A	N/A	\$5.00	\$7.50	\$7.50	N/A	
Dunn	N/A	N/A	N/A	\$10.00	\$20.00	\$30.00	N/A	
Eau Claire	\$10.00	\$20.00	\$30.00	\$10.00	\$20.00	\$30.00	N/A	
Florence	N/A	N/A	N/A	\$10.00	\$20.00	N/A	N/A	
Fond du Lac	N/A	N/A	N/A	\$10.00	\$25.00	\$35.00	\$300 single/ \$600 family	Year
Forest	N/A	N/A	N/A	\$10.00	\$20.00	\$30.00	\$250 single/ \$500 family	Year
Grant	\$5.00	\$6.00	N/A	N/A	N/A	N/A	N/A	
Green	N/A	N/A	N/A	\$6.00	\$15.00	N/A	N/A	
Green Lake	N/A	N/A	N/A	\$10.00	\$20.00	\$30.00	N/A	
Iowa	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	N/A	
Iron	N/A	N/A	N/A	\$5.00	\$15.00	N/A	N/A	
Jackson	N/A	N/A	N/A	\$10.00	\$20.00	N/A	\$250 single/ \$500 family	Year
Jefferson	N/A	N/A	N/A	20%	20%	20%	\$500 single/ \$1,000 family	Year
Juneau	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	\$300	Year
Kenosha	POS							
Kewaunee	N/A	N/A	N/A	\$5.00	\$10.00	\$15.00	N/A	
La Crosse	N/A	N/A	N/A	\$10.00	\$10 + Dif	\$20.00	N/A	
Lafayette	\$5.00	\$10.00	N/A	N/A	N/A	N/A	N/A	
Langlade	N/A	N/A	N/A	\$5.00	\$15.00	N/A	N/A	
Lincoln	N/A	N/A	N/A	\$5.00	\$15.00	\$35.00	\$1,000	Year
Manitowoc	N/A	N/A	N/A	\$6.00	\$13.00	N/A	\$100 single/ \$200 family	Year
Marquette	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	\$300 single/ \$600 family	Year
Monroe	\$10.00	\$20.00	\$30.00	N/A	N/A	N/A	N/A	
Oconto	N/A	N/A	N/A	\$0.00	\$0.00	\$0.00	N/A	
Oneida	Indemnity Plan							
Outagamie	\$5.00	\$15.00	\$30.00	N/A	N/A	N/A	N/A	
Pepin	\$5.00	\$15.00	\$35.00	\$5.00	\$15.00	\$35.00	\$300 single/ \$600 family	Year
Pierce	\$8.00	N/A	\$12.00	\$8.00	N/A	\$25.00	\$250 single/ \$500 family	Year
Racine	N/A	N/A	N/A	\$10.00	\$15.00	N/A	N/A	
Richland	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	\$300 single/ \$600 family	Year
Rock	N/A	N/A	N/A	\$7.50	\$15.00	N/A	N/A	
Rusk	20%	20%	20%	N/A	N/A	N/A	\$400	Year
Sawyer	N/A	N/A	N/A	\$5.00	\$10.00	N/A	\$250	Year
St. Croix	N/A	N/A	N/A	\$5.00	\$10.00	\$15.00	\$200	Year
Trempealeau	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	\$300 single/ \$600 family	Year
Vernon	\$5.00	\$15.00	\$35.00	N/A	N/A	N/A	\$300 single/ \$600 family	Year
Vilas	N/A	N/A	N/A	\$0.00	\$0.00	\$0.00	\$0	
Walworth	N/A	N/A	N/A	\$5.00	\$15.00	20% or \$50	\$1,000	Year
Washburn	N/A	N/A	N/A	\$5.00	\$10.00	\$10.00	\$250 single/ \$500 family	Year
Washington	N/A	N/A	N/A	\$10.00	\$20.00	\$35.00	N/A	
Waukesha	\$10.00	\$20.00	\$30.00	N/A	N/A	N/A	N/A	
Waupaca	N/A	N/A	N/A	\$3.00	\$5.00	N/A	N/A	
Waushara	N/A	N/A	N/A	\$5.50	\$11.00	N/A	N/A	
Winnebago	\$5.00	\$15.00	\$30.00	\$10.00	\$20.00	\$40.00	N/A	

Date: June 24, 2004

To: Jerome J. Heer, Director of Audits

From: Linda Seemeyer, Director, Department of Administrative Services
Charles McDowell, Director, Human Resources
Matthew M. Janes, Manager, DHR Benefits & Retirement

Subject: Management Response to Recommendations in the June 2004 Audit of Employee Health Care Benefit

On behalf of the Department of Administrative Services (DAS), we would like to express our appreciation for the thorough and thoughtful review of Milwaukee County's employee health care benefit. Your analysis of the factors that drive health care costs for the County, including an aging demographic and the retirement benefit for pre-1994 employees, illustrates the difficulty inherent in the task of restraining health care costs.

The recommendations contained in the report provide a useful road map for future health care design and, for the most part, we would support bargaining for their implementation. As you know, we have one year left on our current health care contract, however, we are attempting to make changes in the level of deductibles and co-insurance payments. With the support of the Personnel Committee, we are currently negotiating these changes with the Deputy Sheriff's union. This audit validates this approach and will be very helpful to our efforts.

It should be noted that many of the recommendations contained in the audit report will need not only the support of the Labor/Management Health Care Cost Containment Committee, but will also be required subjects for bargaining labor contracts. Further, it could certainly be argued that many of the changes proposed represent a substantial change in current County policy. It would seem that prior to any implementation, these changes need approval from the County Board of Supervisors. With that caveat, we respectfully submit the DAS responses to the Audit report's individual recommendations.

Linda Seemeyer
Director,
Administrative Services

Charles McDowell
Director,
Human Resources

Matthew M. Janes
Manager,
Benefits & Retirement

Section 1: 2003 Health Care Cost Reduction Plan

There has been considerable discussion/misunderstanding concerning the nature of the \$10 million savings estimated under the cost reduction plan. The savings were estimated by Milliman USA, an actuarial consulting firm, who indicated that given various assumptions contained in their report, there was a 50% probability that County health plan cost increases projected for 2004 could be reduced by \$10 million.

Although we would favor a retrospective actuarial study to measure the “savings”, we accept the over-all conclusion reached in this audit report that \$7.6 million in savings was achieved.*

Following below is the staff response to the Audit Report Recommendations:

Section 3: Milwaukee County Health Care Drivers

1. Review methodology for calculating health care premiums.

The cost of the premium should reasonably reflect the health care cost of each premium category.

Concur with audit recommendation with the following reservations: the health care premiums must equate to the cost projected in the budget. The audit report suggests that consideration should be given to adding a risk reserve for potential budgetary over runs. A risk reserve should be added to the monthly premiums only if a reserve is also included in the adopted budget. Any difference between premiums and budget should be carefully reviewed with Corporation Counsel so as not to violate COBRA laws.

2. Terminate its agreement with Aurora for the Aurora Direct EPO Conventional Health Care Plan Option.

3. Obtain competitive discounts with Aurora through the Humana PPO Plan Option, or, alternatively, exclude Aurora facilities from the Milwaukee County Conventional Health Care Plan.

These recommendations require further study. The issue of discounts from providers was discussed extensively with all major provider networks in the greater Milwaukee area prior to the

County's decision to enter into a direct contract with Aurora. The consistently held position by all provider networks was a willingness to discuss deeper discounts, but only in return for a "favored nation" status that would drive more business to the provider. No provider network was willing to offer a greater discount without a favored nation status since that would simply amount to discounting its current business resulting in a revenue loss to the provider.

Assuming for the sake of discussion that Aurora was interested in reviewing this position, the ability of a participating employer to selectively negotiate financial terms with some Humana PPO providers, and retain the discounts with other providers under the PPO needs further investigation with Humana.

Proceeding with a health care plan which would completely exclude Aurora in the event that competitive discounts cannot be achieved, as suggested as a possible consequence in the audit report, would be a bold and unprecedented action requiring a thorough analysis of its impact on employees and retirees.** Any such action would require policy direction from the County Board of Supervisors.

4. ***Increase annual deductible and co-insurance obligation levels established in the Milwaukee County Conventional Health Care Plan. A strategy of gradual escalation, with a possible indexing mechanism, should be considered.***
5. ***Expand the applicability of annual deductible and co-insurance obligations to frequently used laboratory and other ancillary facilities.***

Concur with recommendations. Milwaukee County and its employees must work together to control health care costs. DAS has, and will continue to, include proposals in labor contract negotiations to extend the annual deductible and coinsurances to all services, except doctor office visits and prescription drugs. Separate co-payments for these services have been proposed.**

DAS has also proposed the introduction of a new medical plan called "Coverage First" administered by Humana. Coverage First is a new type of medical plan now being introduced by the insurance industry as a way to combat rising health care costs by focusing on patient consumerism. Coverage First features a front-end employee deductible of \$1,000, along with a \$500 benefit allowance, which can be used to offset some of the deductible cost. The underlying theory is that the patient has a financial incentive to limit their use of unnecessary medical services, and make choices that save on costs. Coverage First also provides information on provider cost and quality.

6. ***Include a co-payment obligation for all emergency room visits that do not result in admittance as a hospital inpatient.***

Concur with recommendation. DAS has included a strategy for labor contract negotiations which would call for a co-payment for all emergency room visits that do not result in admittance as a hospital inpatient.**

- 7. Work with Humana to identify low-cost providers for a variety of health care services and disseminate such information to County employees and retirees through its web site, a toll free telephone number, and other methods.***

Concur with recommendation. Please refer to comments under ***Recommendation 10***.

- 8. Consider altering the current administrative practice of excluding retirees age 65+ from applicable deductible and coinsurance obligations, thus providing them the same benefit level as employees and retirees under age 65.***

Concur with recommendation following review by Corporation Counsel. Benefits for Medicare eligible retirees should not exceed the benefits for non-Medicare eligible retirees or employees. However, any perceived reduction in benefits for retirees must be carefully examined due to the complicated legal environment surrounding retiree medical benefits. Moreover, the underlying contracts between Humana and the preferred providers may limit this approach.

DAS is also investigating with Humana the cost effectiveness of funding our Medicare eligible retirement benefits on a direct contract basis. Called "Humana Gold Advantage" the plan has the potential to save considerable County costs for Medicare eligible retirees.

- 9. Explore and evaluate employee wellness programs that have the potential to achieve health care savings at Milwaukee County. As a starting point, the County should evaluate the program offered in partnership with Humana.***

Concur with recommendation. Please refer to comments under ***Recommendation 10***.

- 10. Pursue health care cost savings through the development and implementation of a formal participant communications plan designed to provide information about health care alternatives, promote greater participation in the disease management program and healthier lifestyles, connect participants to the information and features available on the Humana website, and provide other useful healthcare information.***

Concur with recommendation. The County's resources devoted to these aspects of health plan administration have been inadequate considering the cost of the program. Humana is well equipped to provide the required services, but additional County support is needed. Consideration should be given to financial incentives/disincentives to encourage employees and retirees to participate in programs that will encourage a healthier lifestyle and more cost-effective usage of appropriate medical services. It is a matter of great concern that Humana notes that the population covered by the County PPO has over three times the expected number of patients eligible for disease management programs, when compared to its national business. Additional effort must be made to maximize participation in these programs. Moreover, a comprehensive wellness program needs to be implemented to maintain and improve the over-all state of wellness. Humana has state-of-the-art predictive modeling tools that identify those patients who are likely to incur expensive claims in the future. Identifying and interceding with these patients will improve their well being as well as help to avoid costly future expenses to the plan.**

- 11. Assess the adequacy of the staffing levels committed to the administration and oversight of the County's health care benefits to enable the Benefits Manager to expand the oversight of health care contracts and pursue potential cost savings initiatives.**

Concur with recommendation. Please refer to comments under **Recommendation 10**.

Footnotes

*A report recently completed by Milliman USA, which was commissioned by Aurora and supported by DAS Employee Benefits staff, demonstrates a savings of over \$10 million.

** Implementation of these recommendations would require prior agreement with County Labor Unions.