

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: December 5, 2003
To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
From: Jerome J. Heer, Director of Audits
Subject: Report on Projected Surplus/Deficit in the Employee Health Benefits Account [File No. 02-503 (a)]

Background

As part of the 2003 Adopted Budget, the Department of Audit was directed "...to provide monthly reports for the first quarter of 2003 and quarterly reports thereafter, unless otherwise determined, regarding the projected surplus/deficit in the employee Health Benefits account." At its meeting on January 16, 2003 the Finance and Audit Committee directed the Department of Audit to provide subsequent reports in April, July, October and December. The budget directive was approved as an amendment to the County Executive's Proposed Budget in light of concerns expressed in a joint memo from the County Board Director of Research and the Director of Audits, dated October 17, 2002. That memo, which provided an analysis of the Health Care Cost Reduction Plan included in the proposed 2003 budget, cautioned that monitoring reports of actual health care costs throughout 2003 would be prudent, given the uncertain nature of various assumptions upon which budgeted health care costs are, by necessity, built.

General Account Monitoring

One method of reviewing 2003 health care costs is to measure the expenditures to date in relation to the percentage of total 2002 costs recorded at the same time last year. Using this method in our prior monitoring reports, we noted that figures through June 2003 were tracking almost precisely on budget. However, as reported in our October 1 memo, expenditures through September were on pace to exceed budget by about \$3 million. As of today's date, preliminary information indicates expenditures through November of \$73 million are on pace to exceed budgeted appropriations by about \$3.7 million. It should be noted that this information is preliminary and almost certainly does not represent an exact projection for 2003.

It also is important to note that health care costs are not entirely predictable, and one year's pattern or pacing of expenditures may not be replicated in the following year. For instance, to the extent certain high-cost episodes of health care needs arise among covered County employees or retirees in greater proportion than the previous year, County health care costs could experience an unexpected 'spike.'

Separate Projection Methodology

The County Controller has projected an estimated 2003 deficit in excess of approximately \$5 million in these same health care accounts. That estimate was prepared using a separate methodology that breaks down the component parts of the 2003 health care costs and uses annualized figures based on year-to-date expenditures to project costs for the remainder of the year. That estimate is a valid approach, but also is subject to the previously noted limitations concerning the difficulty in predicting future health care costs. The approach used by the controller is reasonable and his resulting projection is neither contradicted nor supported by the methodology used in this monitoring report.

The difference of \$1.3 million in the two projected deficit figures (\$5.0 million - \$3.7 million) equates to just 1.6% of the 2003 health care benefit budget of \$80.6 million.

2003 Health Care Cost Reduction Plan

If the health care benefit account deficits within the projected range of \$3.7 million--\$5 million, total expenditures will have exceeded budgeted appropriations somewhere within a range of 4.6%--6.2%. When significant changes were proposed in the County's health care program, including a change in the County's third party administrator, savings of \$10 million from anticipated 2004 expenditures were projected. It is important to understand that a deficit in the 2003 health care benefit account does not mean that \$10 million in savings was not achieved. A thorough analysis of health care claims experience, including utilization trends as well as charges and other factors, would be necessary to make a definitive determination of actual cost savings resulting from the changes implemented in 2003. However, it is clear from preliminary data we have reviewed that discounts achieved in virtually every facet of services provided under the County's conventional plan in 2003 were substantially greater than in 2002. Therefore, it is safe to say that, even though a deficit in the County health care benefit account is anticipated, the County achieved substantial savings from costs it would have incurred had it not implemented the Health Care Cost Reduction plan.



Jerome J. Heer

JJH/cah

cc: Finance and Audit Committee Members
Scott Walker, Milwaukee County Executive
Linda Seemeyer, Director, Department of Administrative Services
Terry Kocourek, Fiscal and Budget Administrator, Department of Administrative Services
Charles McDowell, Director, DAS-Human Resources Division
Scott Manske, Controller, Department of Administrative Services
Matt Janes, Employee Benefits & Services Manager, DAS-Human Resources Division
Terry Cooley, County Board Chief of Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri Henning, Chief Committee Clerk, County Board Staff