

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: March 12, 2008
To: Richard D. Nyklewicz Jr., Chairman, Finance and Audit Committee
From: Jerome J. Heer, Director of Audits
Subject: 2008 Health Care Budget

At your request, we have analyzed the financial impact of recent activity regarding one of the most significant components of the Milwaukee County operating budget, health care costs.

At the beginning of 2006, this government was facing continued increases in health care costs at a rate far in excess of inflation. Indeed, from 2002 through 2005, these costs rose from \$81.5 million to \$120.2 million, an increase of 47.5%. Further, two key variables put the County on a path of continued double-digit increases. The first was failure to resolve health care benefit issues as part of labor negotiations with the County's largest union. The second was a decision to move the County's employee and retiree health care program from a largely self-insured model to a fully insured model, a move that was contained in the 2006 County Executive's Recommended Budget.

Labor negotiations affecting the County's largest union was effectively resolved under the leadership of the Personnel Committee with the cooperation of the Finance and Audit Committee as well as the Board Chairman and members of the County Board. An overall cost saving strategy was developed by the Committee and implemented by County administrators with concurrence of the County Executive and Labor. As a result of government-wide implementation of these changes, total health care costs from 2006 through the end of 2008 are estimated to be approximately \$43.5 million (assuming maximum allowable increase of approximately 15.8% under former fully insured administrative contract).

The second major step in containing health care costs was the Finance and Audit Committee's creation of the Health Care Workgroup. This group of administrative and legislative staff worked with a consultant to revisit the flawed fully insured health care program. With the cooperation of WPS, the third party administrator, the Workgroup was successful in negotiating a completely self-insured program. As a result, we estimate that approximately \$31.5 million in savings will be realized for the period 2006 through year-end 2008 (again, assuming the increase of 15.8% under the former contract).

Combined, these two initiatives put the County in a position to achieve savings of approximately \$75 million for the three-year period 2006 through 2008 when compared to what costs could have reached without benefit design changes and without the return to a self-insured model.

If you have any questions, please contact me at 278-4206.

Jerome J. Heer

JJH/cah

cc: Milwaukee County Board of Supervisors
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