



Department of Human Resources
Division of Employee Benefits

INTER-OFFICE COMMUNICATION

Date: 4/24/2014
To: Chairwoman Marina Dimitrijevic, Milwaukee County Board of Supervisors
FROM: Matthew Hanchek, Director of Benefits – Department of Human Resources *MH*
SUBJECT: **A report from the Director of Benefits, Department of Human Resources requesting authorization to execute an amendment extending the existing contract with UnitedHealthCare for medical third party administrative services through the 2017 plan year**

Issue / Background: Milwaukee County's medical and pharmacy administration contracts, which were extended to include Milwaukee Transit Services in 2012, are expiring at the end of this year. Human Resources has been collaborating with our colleagues at the City of Milwaukee and Milwaukee Public Schools on developing RFPs for 2015 – 2017 plan years. In advance of the RFP release all three entities have renewal offers from the incumbent vendors (UHC and Express Scripts).

Both UHC and Express Scripts have offered favorable renewal terms, but the administrative component is a small factor in the overall cost of the plan. The true financial drivers are the strength of network and the levels of discounts achieved. As such, the County (including MTS), City of Milwaukee, and Milwaukee Public Schools released shared Medical and Pharmacy RFI's to evaluate both the administrative costs and the discount performance of the incumbents compared to their peers within the market.

Medical

UnitedHealthcare (incumbent) - currently captures 98.3% of all claims in-network with an average discount of 51.6%. As the incumbent, UHC has proposed a renewal with no change in fees for 2015, and a 2% increase in 2016 and 2017. As such, the total administrative costs projected for 2015 would continue to be approximately \$4.2 million. Willis confirms that the base rate of \$28.72 PEPM (attachment B) is among the lowest in the market compared to our peers who utilize UHC. Historically, UHC's administrative fees have also been below the fees offered by competing providers.

Medical Conclusion: UHC's closest competition would capture 96% of claims in-network, with an average discount of 48.5%. Willis estimates that as a result of the lower discounts, claims costs would increase by \$6,700,000 compared to UHC's proposal before accounting for the 3% of claims that would fall out of network and receive no discount (attachment A). According to

Willis, if the utilization patterns remain constant, the network disruption would likely add \$3.1 million in additional cost.

For context, in the unlikely event that the closest competitor offered to waive all administrative fees in order to gain market share, Milwaukee County, Milwaukee Transit Services, and our covered employees would absorb over \$5,000,000 per year more in total Medical costs than they would under the proposal by UHC.

A full-RFP process in accordance with MCGCO 56.30 will yield the same result as the renewal proposal. Effectively, the re-pricing exercise in the RFI confirms that UHC, by virtue of their provider network contracts, is uniquely positioned to provide TPA services to Milwaukee County (including MCTS), City of Milwaukee, and MPS. Both the City of Milwaukee and MPS concurred with this conclusion, and are recommending a contract renewal with their respective policy makers.

Medical DBE Participation: The terms of the prior contract, including the 17% commitment for creating opportunities for disadvantaged business enterprises (DBE) would carry forward to the extension. UHC has been a willing partner in this effort, and has consistently outperformed their stated goal. The office of the Community Business Development Partners is supportive of the recommendation to renew this contract, and if the extension is approved, will continue to collaborate with UHC and Benefits staff to ensure sustained performance.

Requested Action: The Director of Benefits, Department of Human Resources requests authorization to execute a three-year extension of the current contract with United Health Care with rates defined in attachment B.

Pharmacy

The renewal offered by Express Scripts is an improvement over current rates, and we have generally been pleased with their performance. However, when performing the market check, Willis noted considerable variance in the discounts and manufacturer rebates among our peers, and as well as variance in how those terms are being applied to different categories (e.g. sole source generics). Further, there was variance in how dispensing fees are applied. Traditionally, Pharmacy Benefit Manager (PBM) compensation lacks transparency. The renewal offer and subsequent market check are no different in that regard.

There have also been a number of other shifts in the PBM market since the County's last competitive bidding process. Our incumbent (Medco) was acquired by another entity (Express Scripts), and there's been a general consolidation of smaller tier PBM's. As a result, we can reasonably expect to see viable bids from 3 vendors who were previously unable to compete (Caremark, Catamaran, and Optum Rx), as well as a stronger bid from Navitus based on their continued growth.

For all of these reasons, the Benefits Division intends to continue with the original intention to execute a full RFP process for the PBM services. We will return to this committee with recommendations for a Pharmacy contract based on the RFP.

CC: County Executive Chris Abele
Amber Moreen, Chief of Staff
Raisa Koltun, County Executive's Office
Kerry Mitchell, Chief Human Resources Officer
Paul Bargren, Corporation Counsel
Supervisor David Cullen, Co-Chairman, Personnel, Finance & Audit Committee
Supervisor Willie Johnson, Co-Chairman, Personnel, Finance & Audit Committee
Kelly Bablitch, Milwaukee County Board of Supervisors Chief of Staff
Don Tyler, Director of Administrative Services
Josh Fudge, Director, Office of Performance, Strategy, and Budget
Stephen Cady, Comptroller's Office
Rick Norris, Director, Office of the Community Business Development Partners
Amy Pechacek, Director, Risk Management

Attachment A - Medical Discounts & Estimated Cost Impact for Milwaukee County & MTS:

	UHC (incumbent)	Best Alternative	Alternative 2
Inpatient Discount	43.8%	43.4%	51.1%
Outpatient Discount	56.4%	50.1%	39%
Professional Service	51.7%	50.4%	44.9%
Aggregate	51.6%	48.5%	44.72%
Annual Charges	\$215,000,000	\$215,000,000	\$215,000,000
Discount change	---	3.1%	6.9%
Discount cost	---	\$6,700,000	\$14,800,000
% of Claims In-network	98.3%	95.5%	Not provided
Network disruption	---	2.8%	
Disruption cost	---	\$3,100,000	
Change in Total Cost		\$9,800,000	\$14,800,000

Attachment B - UHC Schedule of Medical TPA Fees Per Employee Per Month:

	Current Terms	2015	2016	2017
Base TPA Fee	\$28.72	\$28.72	\$29.30	\$29.89
Care24 Nurseline ¹	\$0.80	\$0.80	\$0.80	\$0.80
Total TPA Fees	\$29.52	\$29.52	\$30.10	\$30.69
County Estimated Cost²	\$3,437,545	\$3,437,545	\$3,505,085	\$3,573,789
MTS Estimated Cost³	\$688,643	\$688,643	\$702,173	\$715,936
Total Annual TPA Fees	\$4,126,188	\$4,126,188	\$4,207,258	\$4,289,725

- 1) Care24 Nurseline is required for MTS, but is optional for Milwaukee County. Milwaukee County costs assume participation in Care24. Though not recommended, declining Care24 for the County would decrease the administrative costs listed above by approximately \$90,000 per year
- 2) Assumes consistent employee/retiree enrollment counts
- 3) Excludes fees for pharmacy (to be addressed via Pharmacy RFP)