Department of Human Resources
Division of Employee Benefits

INTER-OFFICE COMMUNICATION

Date: 6/3/2013

TO: Milwaukee County Board of Supervisors, Finance, Audit & Personnel Committee

FROM: Matthew Hanchek, Director of Benefits – Department of Human Resources

SUBJECT: **Informational report from the Director of Benefits, Department of Human Resources, on behalf of the Employee Benefits Work Group regarding Onsite Clinics (no action required).**

Issue/Background

The 2013 Adopted Budget directs the Employee Benefits Work Group to study the feasibility of implementing an onsite health clinic for employees as a means of slowing the rate of cost increases under the County's medical plan. The budget further directs the work group to develop a plan to implement if deemed appropriate. This is a report of the work group's preliminary findings.

Purpose/Benefit of On-site Clinics:

Direct Short-term Reduction in Health Care Cost: An onsite clinic can provide services at a lower cost than other network providers if an adequate volume of claims can be channeled through the facility to achieve economies of scale. This is described in greater detail in the financial analysis on page 8.

Improved Medical Management/Preventive Medicine: In theory, by making primary care more accessible, compliance with annual physicals and routine preventive care will improve. Over time this can improve the overall health of the covered population and contribute to a gradual slowing of the rate of health care inflation.

Long-term Behavior Change: An onsite clinic can reduce waste through an enhanced doctor-patient relationship. Generally the physician is less rushed in an onsite clinic and can spend additional time discussing patient concerns. This can contribute to more judicious use of specialists and the emergency room.

The additional time dedicated to the individual doctor-patient relationship can refocus each office visit on the whole-person rather than the presenting condition. When this occurs, the patient can become better equipped to understand and manage their health risks, ultimately leading to improved population health.

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Criteria for Success / Best Practices:

Focus on Population Health: Many onsite healthcare initiatives focus on replacing high volume community-based primary and preventive care with care provided by lower cost providers within the clinic. While this focus will produce some modest savings, the most successful initiatives focus on reducing individual health risks.

Success Depends on High Utilization: In order to be truly effective, an onsite clinic needs to be utilized by nearly all employees and covered dependents. The most successful onsite clinics direct care for virtually all covered persons – even those with severe and chronic conditions. Care that is received outside the clinic is managed by the clinic.

Incentives and Location: Clinic utilization can occur regardless of location if the financial incentive is sufficient (for example, excluding coverage for certain procedures outside the clinic), but this would not be a common approach.

Employers typically encourage use of the onsite clinic by creating a meaningful financial incentive for employees, when compared to the out of pocket cost from external providers. This can include waiving or reducing office copays at the onsite clinic, increasing out-of-pocket costs at all other providers, or a combination of both.

It is common for vendors to prefer that at least 1000 employees be at the location, but it is not an absolute requirement. Some onsite healthcare providers have scaled their care models down to roughly 200 employees per location, but access and the scope of care is generally very limited for these smaller facilities. The proximity of dependents can also be factored in.

In general terms, higher concentrations of employees working and living in close proximity to the clinic will yield higher utilization by employees. Similarly, placing the clinic closer to where employees live improves the likelihood of getting employees' covered dependents to use the clinic in lieu of their personal physicians. The availability of other providers, ease of access, availability of parking, etc. all will factor into the extent to which employees and families will utilize the onsite facility.

In essence, utilization is contingent on being more convenient and affordable than the health care provider alternatives available to the patient.

Facility Space: Onsite clinics with an extremely limited scope of service and hours of operation can work with a minimum of few hundred square feet of space. Large operations with a wide range of services can require several thousand square feet. Typically a primary care clinic with basic lab services will require around 1800 – 2000 square feet of space.

Eligibility/Access: Generally an onsite clinic is made available to all covered employees and their dependents at a work location. Employees who are not enrolled in the employer's medical plan can be excluded from using the clinic to avoid issues with billing and coordinating with a third party's insurance plan. Similarly, employers normally exclude Medicare-eligible retirees

from using the clinic based on the low Medicare reimbursement rates for services, and the additional staff required to conduct Medicare billing.

Scope of Clinical Services: The Scope of Clinical Services depends on whether the focus is on reducing unit costs of high volume procedures, or reducing population health risks.

Onsite healthcare clinics that utilize modest incentives and focus on reducing unit costs typically focus on general practice/family medicine services, and common lab tests. This helps to keep staff sizes, equipment costs, and facility sizes within reason.

Integration with other Health Initiatives: Since onsite healthcare, to a large extent, can be viewed as an extension of wellness initiatives that are already underway. It is common for employers to seek synergy by driving wellness related services (e.g. biometric screenings) into the onsite facility. These options will need to be reviewed in greater detail before any decision to move forward.

Some organizations may consolidate occupational health services under an onsite clinic to increase the volume of services directed to the facility and to achieve the necessary economies of scale to make the facility viable. In these cases, the philosophical and legal differences between occupational and non-occupational medicine need to be carefully considered and managed.

Segregation from the Employer: Employees generally will not trust, and ultimately will not use a facility if they perceive it to be the "company doctor" or an extension of the employer. It is critical to emphasize the separation between the clinic manager and the employer.

Case Studies:

Lands' End

Lands' End has about 2700 employees, primarily located in Dodgeville, WI and to a much lesser extent, Reedsburg, WI. Their clinic is located on their main campus in Dodgeville, and a satellite office in Reedsburg. Nearly all employees live near the primary campus.

This clinic has been in place for nearly 10 years, and has been extremely successful, with approximately 50% of their employees/families using the clinic. This is largely attributable to geography. Most employees work and live in close proximity to the main campus making it very convenient the most convenient option. Further, being located in a rural area significantly decreases the number of available convenient alternatives. Lands' End enhances the geographic advantage by waiving office visit fees entirely for preventive care, and offering reduced copays for non-preventive services. In essence, their clinic is more convenient and less expensive for employees and their dependents than the available alternatives in the area.

The Lands' End clinic has an annual operating cost of approximately $450,000. While definitive savings data is not available, they believe this clinic has been critical to slowing the rise of health care costs, and provides critical access to convenient quality care that they had been lacking.

Lands' End also provides employees with access to a comprehensive fitness and aquatics center that is loosely tied to its onsite healthcare initiative.

Caterpillar (formerly Bucyrus)

Bucyrus launched an onsite clinic prior to being purchased by Caterpillar. Although Caterpillar has a number of onsite clinics within their organization, they typically avoid placing clinics in urban locations with a multitude of existing health care provider options.

Bucyrus's ability to provide financial incentive for employees to utilize the clinic was limited by the copays prescribed by their labor agreements. This lack of steerage compounded the problem of having an abundance of competing healthcare provider options. Although they had a large concentration of employees/families in close proximity to the facility, the clinic went largely unused. Bucyrus was allowed to continue operating the clinic for a year following the acquisition, but ultimately shut it down.

Miller Brewing

Miller Brewing launched a Quad Med clinic in 2005 with modest success. The clinic had an initial build cost over $1,000,000 to adapt a smaller vacant building into a clinic/fitness center. It has an annual operating cost of approximately $1,000,000, primarily driven by a staff consisting of 1 full-time physician, a physician's assistant, an RN, a shared clinic manager, a phlebotomist, an x-ray tech, and a fitness coordinator. Miller charges a significantly reduced copay to encourage employees and family members to use the clinic. Currently, the clinic is receiving sufficient volume to operate at the breakeven point.

Miller has been successful in engaging their non-represented employees at the main campus, but has had less success in achieving buy-in from union employees. Further, Miller has had challenges encouraging utilization from family members who may not live in close proximity to their campus.

After the first few years of operations, Miller recognized that the scope of the clinic may have been overly ambitious, specifically regarding the range of lab and x-ray services that the clinic is capable of providing in-house. There was not enough volume of these services to justify the equipment cost and maintenance expense. They have sold or placed into storage some of the lesser used equipment to reduce the overall operating budget and improve efficiency.

Miller has a reciprocity agreement where if a Miller employee uses another employers' Quad Med administered clinic, Miller is charged a fee that is greater than the cost of their own clinic, but less than the amount charged at a network provider under their health plan.

Waukesha County

Waukesha County has evaluated the feasibility of implementing an onsite clinic independently, or in collaboration with Waukesha Public Schools and the City of Waukesha. They have contracted with a consultant to evaluate options, and received the initial findings in early May. The initial findings are favorable, and it is likely that Waukesha County will proceed with a clinic in collaboration with the City of Waukesha and Waukesha Public Schools. The Employee Benefits Work Group will continue to monitor Waukesha County's progress as they proceed.

Among the key reasons for Waukesha County's favorable finding is that employees are almost entirely concentrated in one campus, which also coincides with the Waukesha Public School and City administration sites. Waukesha County also has a significantly smaller population of covered retirees (approximately 300 in total), with no obligation to provide the same plan design or access to retirees as they provide to active employees. As such, the clinic will likely exclude all Medicare-eligible retirees.

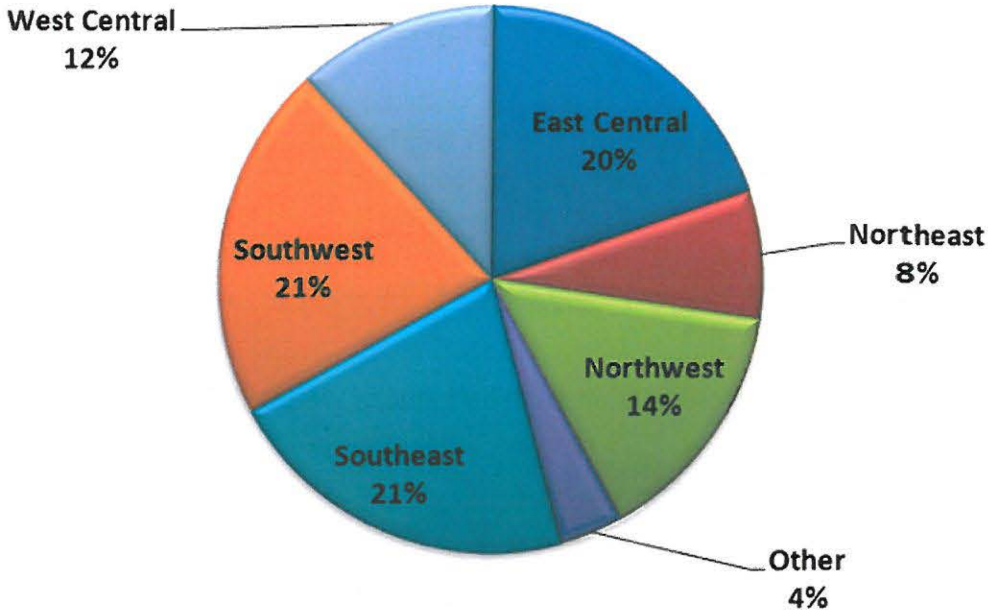
Waukesha County's preliminary scope of services will include primary care, wellness and biometric screenings, pre-employment screening, employee drug testing, and occupational health services. They anticipate an initial staff/operating cost of approximately $150,000 - $200,000 based on 54 hours per week of operation by a Nurse Practitioner. If utilization warrants, they can expand operating hours, and include patient access to the supervising physician. The total year 1 costs are estimated at 1.3 million.

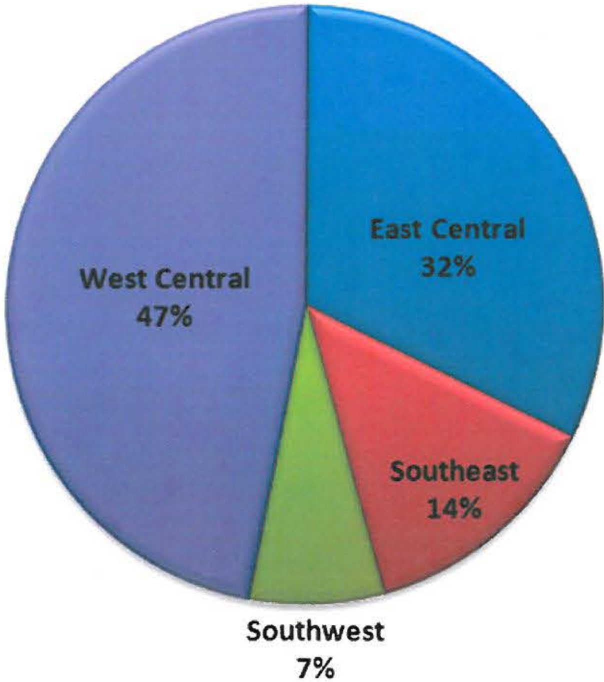
Waukesha County will likely use a reduced copay to incentivize utilization.

Milwaukee County Location Analysis

The Benefits Division reviewed where employees live and work and where primary care providers are located by dividing the County into 6 regions. While not shown in the charts below, the distribution of retirees who live within Milwaukee County is similar to the distribution of active employees among the 6 regions.

Work locations were assigned based on the primary location of the org. unit number for the Departments/Divisions. Separating org units into smaller worksite groupings would likely re-distribute a portion of the West Central group to the East Central, South East, and South West regions. There is not a significant volume of worksites in the North.


Where Employees Live
West Central
12%
East Central
20%
Northeast
8%
Southwest
21%
Northwest
14%
Southeast
21%
Other
4%


Where Employees Work
East Central
32%
West Central
47%
Southeast
14%
Southwest
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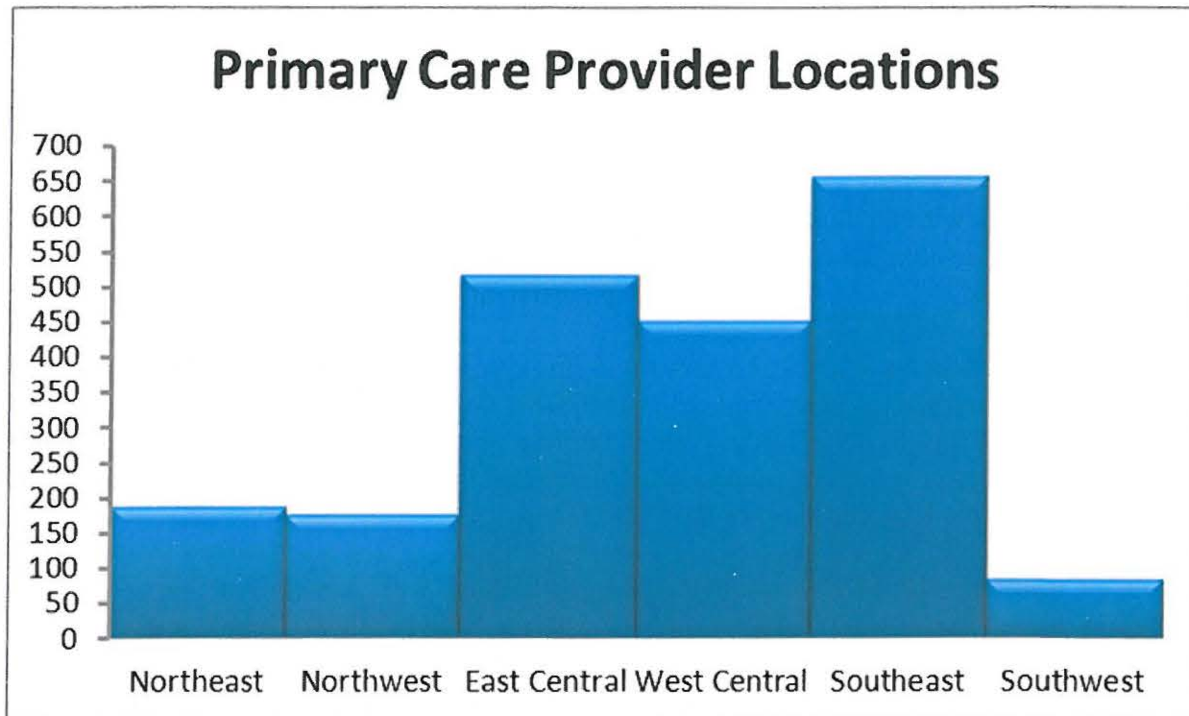

The regions are defined as follows:

Region	Definition
North East	Bordered by Lake Michigan in the East, 43rd St in the West, the County line in the North, and Capitol Dr in the South.
North West	Bordered by 43rd in the East, the County line in the North and West, and Capitol Dr. in the South.
East Central	Bordered by Lake Michigan in the East, 43rd St in the West, Capitol Dr in the North, and Becher St. in the South. Includes the Courthouse complex, Coggs Center, and City Campus
West Central	Bordered by 43rd St in the East, the County line in the West, Capitol Dr in the North, and Becher St. in the South. Includes BHD, Zoo, Parks Administration
South East	Bordered by Lake Michigan in the East, 43rd St in the West, Becher St. in the North, and the County line in the South. Includes General Mitchell International Airport
South West	Bordered by 43rd in the East, the County line in the West, Becher St. in the North, and the County line in the South. Includes the House of Correction (CCF-South)

Ideally, the choice for the location of a clinic would be aligned with a large concentration of employees, have convenient to access for the majority of covered dependents, and be in an area that does not already have a large number of providers. Unfortunately, there is not a Milwaukee County worksite that appears to meet all of these criteria. Based on employee location, the two most prominent options would be the BHD and Courthouse Complex (discussed below).

The County worksites with the highest volume of employees coincide with the regions that already have the highest number of network primary care physicians. Competition from existing area providers will add to the challenge of reaching sufficient volume to make the clinic viable.

Behavioral Health Division: The largest groups of employees work in the West Central region, which could suggest unused/underutilized space at BHD as a potential location. However, only 12% of County employees live within the West Central region. The location would be at a geographic disadvantage for drawing dependent utilization. In addition, uncertainty exists concerning the County's long-term use of the BHD facility.

Courthouse Complex: This location would be aligned with the work location of a large concentration of employees, but would not align to where a large number of employees and their dependents live. In addition, space in the courthouse complex is limited and access to the clinic would be inconvenient for non-courthouse employees and all dependents due to security requirements and parking restrictions.

Additional Locations: As Milwaukee County has facilities located throughout the County, the Employee Benefits Work Group could consider options for placing a clinic facility in a location that aligns with employees' home locations and/or a reduced number of providers already serving a particular area. While this may alleviate concerns with dependent convenience and access, it may shift the challenge to obtaining employee engagement.

Financial Analysis

Approach: The analysis below is based on Milwaukee County primary care claims data. All assumptions for clinic costs and utilization are primarily based on a review of local examples of onsite clinics, available publications, and recent RFP's at other employers. The County's Health Care consultant, Willis of Wisconsin, has reviewed the assumptions for reasonableness, but it is important to note the Employee Benefits Work Group has not engaged Willis for a formal actuarial review at this time. The intent of this analysis is to provide policy makers with a rough assessment of potential costs and fiscal performance prior to committing additional resources to a more thorough and detailed financial analysis.

Scope of Practice: We have focused our financial analysis on a scope of practice that would achieve cost reduction by replacing high volume community-based primary and preventive services with lower cost care provided within the clinic.

Start-up Costs: Supplies, equipment, and training for launching a new facility can be as much as $250,000, contingent on the scope of services the clinic is intended to cover. This is in addition to any remodeling costs for the facility space. At a rough per square foot rate of $220,

the remodeling would cost nearly $500,000. A reasonable estimate for total start-up costs for a Milwaukee County Clinic would be $750,000.

A more thorough analysis is needed prior to proceeding with any implementation plan. This analysis should be based on the specific location chosen and the scope of services the clinic would provide. Further, County architects and facilities staff should be engaged to help assess materials, HVAC requirements, electrical, plumbing, etc., all of which could significantly increase these estimates.

The cost of the initial build could be spread over a period of 15 years.

Basis for Operating Costs: The minimum annual operating costs will be around $450,000 - $500,000 roughly based on a staff consisting of a half-time supervising physician, a 30-hour nurse practitioner, a 40-hour CMA/LPN, a full-time phlebotomist, and a full-time patient coordinator (receptionist).

Operating costs will increase as clinic utilization increases. A study completed by Milliman indicated the Bucyrus clinic's claim cost was approximately 80% of the cost of claims under the UHC network in the Milwaukee market after discounts. Using this as a benchmark has the advantage of being in the Milwaukee market and using the same carrier/discount rates that Milwaukee County currently operates with.

This minimum does not consider the likelihood of a management fee for the third-party vendor, nor does it contemplate any fees related to the clinician's liability/malpractice insurance.

Claims Pool: The claims that can potentially be impacted by a clinic with a reasonable scope of services total approximately $4 million. This is derived from taking all claims incurred by active employees in 2012 with an office visit copay procedure code attached. This data was then filtered by the market the claim was incurred in and the provider type to exclude claims incurred outside of the Milwaukee market, and all specialists except pediatricians. A 7.5% trend rate was applied to 2013 and beyond to adjust for healthcare inflation.

Discount on Copay: To achieve any significant utilization of the clinic, there will have to be a meaningful financial incentive for employees to change primary care providers. For the purpose of this analysis, a $20 discount (i.e. $10 copay) was assumed for using the clinic.

Capture Rate: Milwaukee County will not be able to shift 100% of office visit claims into the clinic. At Land's End, which has every factor in their favor (location, convenience, reduced copay, etc.), utilization is still roughly 50% of eligible claims. By contrast, the claims capture at Bucyrus was minimal.

The capture rate is the most subjective aspect of the analysis. Further, the discount on out-of-pocket costs, location, scope of services, etc. will all have an effect on the volume of claims that are shifted to the clinic.

Break-even Point: With the assumptions above, the clinic would need to absorb 15% of all claims to break even in the first year. At 10% the clinic would increase costs by approximately

$170,000 in year one. By contrast, an extremely successful clinic capturing 50% of claims under the assumptions described above would save approximately $180,000, which is less than 0.5% of the active employee medical costs (excluding prescription medications).

Other ROI Considerations: Proponents of onsite clinics will commonly cite gradual improvement in the health and productivity of the covered population as a component of the return on investment for an onsite clinic, in a similar manner as employer wellness plans. By making it more convenient for employees to conduct annual physicals and obtain primary care services, in theory employees will be more compliant with routine health care, which can lead to earlier and more cost effective discovery and resolution of health risks. Further, the improved doctor-patient relationship under an onsite clinic could lead to a decrease in unnecessary services and waste within the health care system.

Similar to wellness plans, it is incredibly difficult to assess and validate savings from behavior change and services avoided, especially when the actual behavior changes are likely to be modest and delayed. Over time, a claims analysis may show correlation between a shift in claims experience or a decrease in the rate of inflation and the presence of an onsite clinic, but it will not demonstrate cause. Consequently, these "soft savings" should not be budgeted for.

Milwaukee County Specific Issues

Milwaukee County's rules governing retiree medical coverage create a unique challenge for launching a successful onsite clinic. The County is required to provide retirees with access to the same health care plan as active employees. Modifying the plan design to allow lower copays for services at a County Clinic would likely require the County to extend access to the facility to covered retirees, including Medicare-eligible retirees. Doing so will require the County to pursue reimbursement from Medicare for those clinic services.

Pursuing Medicare reimbursement will require additional staff and administrative costs. As previously cited, Medicare reimbursement rates are significantly lower than any other payer. As such, treating Medicare-eligible patients at an onsite facility will likely erode any direct savings from treating the active employees.

Findings

Onsite clinics can be an effective tool in slowing the rate of inflation in healthcare cost if a high volume of services can be directed into the facility. This is most likely to occur when there is a sustained level of trust between employees and the employer, the facility is more convenient for employees and their dependents to access than their alternative choices of health care providers, and there is a financial incentive for employees to use the facility.

Milwaukee County's decentralized workforce presents a clear challenge in identifying an easily accessible clinic site that is geographically convenient for employees and dependents. Further, any location for an onsite clinic will face significant competition from an abundance of existing alternative providers in the Milwaukee market.

Milwaukee County's unique requirements regarding retiree coverage leave the County with a difficult decision regarding financial incentives for people to utilize the clinic. By adding an

incentive, the County runs the risk of incurring additional costs as a result of having to open the clinic to retirees and coordinate billing with Medicare. If a significant percentage of services are incurred by Medicare-eligible retirees, the clinic could ultimately increase overall health care costs.

It is questionable under current circumstances whether an onsite clinic could draw an adequate percentage of claims to cover the operating costs. Also, under ideal conditions and high levels of utilization, the hard, verifiable savings from an onsite clinic are still relatively limited, and expected to be less than 1% of the active employee health care costs.

Despite the lack of a compelling short-term financial reason for developing an onsite clinic, it can be argued that integrating an onsite clinic with a comprehensive County wellness plan and/or occupational health may be an effective tool for improving the overall health of employees. This could gradually contribute to a decrease in the rate of health care inflation over the long-term. If this project is undertaken, it should be done as a long-term philosophical commitment to gradually creating a healthier workforce, as opposed to achieving a positive return on investment in the near-term.

Recommendation / Next Steps

Based on the findings above, the Employee Benefits Work Group believes caution is required before the County pursues an onsite clinic for Milwaukee County. The decentralized workforce and the availability of alternative providers make it unlikely that the County would realize an adequate volume of claims to make a clinic viable. This problem is compounded by the County's lack of ability to incent employees to use the clinic due to our restrictions regarding retirees.

If the Workgroup is given direction to continue to pursue an onsite health clinic, the next steps would include, but not be limited to the following:

- Conducting and employee interest survey to better assess employees willingness to use a clinic in lieu of their current options, and preferences for placement of a clinic.
- Engage the County's health care actuaries and consultants in a more comprehensive financial analysis of clinic operations. In order to complete this, it will be necessary for the Work Group to receive direction regarding the scope of services that the County would like the clinic to provide, and the extent to which any other County programs should be integrated with a clinic.
- Identify the location and engage Milwaukee County's Architectural, Engineering, and Environmental Services to refine the cost estimates for remodeling space for this purpose.
- The Capital Finance Division of Comptroller's Office will also need to be consulted regarding the County's options for financing the initial build.

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