



Department of Human Resources
Division of Employee Benefits

INTER-OFFICE COMMUNICATION

Date: 8/4/2016
To: Chairman Theodore Lipscomb Sr., 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 contracts with UnitedHealthCare for medical third party administrative services through the 2019 plan year**

Issues / Background: In 2014 Milwaukee County collaborated with the City of Milwaukee, Milwaukee County Transit System, and Milwaukee Public schools to combine market leverage under a joint RFP in order to achieve more favorable terms for each group. As a result of this process, Milwaukee County, City of Milwaukee, and MPS individually awarded medical administration contracts running through 2017, and pharmacy TPA service contracts running through 2016, with an option to extend pharmacy services through 2017 under the same terms.

Human Resources has been collaborating with our colleagues at the City of Milwaukee and Milwaukee Public Schools regarding the optional third year for pharmacy, and has concluded that picking up the option is not in our best interest as the market conditions for pharmacy have improved. Instead, all three entities have requested renewal proposals for Medical and Pharmacy extending the medical and pharmacy agreements through 2019.

UHC/Optum has responded with aggressive terms, particularly regarding pharmacy. As such, I am recommending approval of the extensions. An overview of the changes to the contract is provided below. All terms not directly discussed below will remain unchanged.

The 2015 budget also included offering a fully-insured Medicare Advantage option as a voluntary alternative to the retiree medical plan required by ordinance. This program has been an overwhelming success, saving Milwaukee County in excess of \$3 million per year in retiree costs, while providing an enhanced benefit to the Medicare-eligible retirees. The plan has been very popular with retirees with over 95% of eligible retirees electing this option.

The contract with UHC for fully-insured Medicare Advantage coverage is contingent on our group's utilization, the demographics and locations of covered members, and federal Medicare funding levels. As such, a rate renewal proposal is submitted to Milwaukee County on an annual basis.

Pharmacy

The Optum Rx proposal contains the most significant change in terms. Optum significantly improved the guaranteed manufacturer rebates for brand and generic medications at both mail order and retail pharmacies. The guaranteed wholesale discount (ingredient cost) also improved slightly. The total effect of the improved terms is shown in the chart below.

	Current Optum Rx Terms			
	2017	2018	2019	3-YR Total
Administrative Fees	\$0	\$0	\$0	\$0
Dispensing Fees	\$41,173	\$41,585	\$42,001	\$124,759
Ingredient Costs	\$13,405,299	\$14,216,320	\$15,076,407	\$42,698,026
Gross Costs	\$13,446,472	\$14,257,905	\$15,118,408	\$42,822,785
Rebates	(\$1,818,509)	(\$1,836,695)	(\$1,855,061)	(\$5,510,265)
Implementation Credit	\$0	\$0	\$0	\$0
Member Copays	(\$2,403,050)	(\$2,403,050)	(\$2,403,050)	(\$7,209,150)
Net Plan Costs	\$9,224,913	\$10,018,160	\$10,860,297	\$30,103,370
	Proposed Optum Rx Terms			
	2017	2018	2019	3-YR Total
Administrative Fees	\$0	\$0	\$0	\$0
Dispensing Fees	\$41,173	\$41,585	\$42,001	\$124,759
Ingredient Costs	\$13,298,511	\$14,103,071	\$14,956,307	\$42,357,889
Gross Costs	\$13,339,684	\$14,144,656	\$14,998,308	\$42,482,648
Rebates	(\$3,285,580)	(\$3,318,436)	(\$3,351,620)	(\$9,955,636)
Implementation Credit	(\$50,000)	(\$50,000)	(\$50,000)	(\$150,000)
Member Copays	(\$2,403,050)	(\$2,403,050)	(\$2,403,050)	(\$7,209,150)
Net Plan Costs	\$7,601,054	\$8,373,170	\$9,193,638	\$25,167,862
Savings from Proposal	\$1,623,859	\$1,644,990	\$1,666,659	\$4,935,508

Optum Rx has agreed to provide a \$50,000 credit per year to pay the costs of the Deepview Audit process that ensures Optum's compliance with the contract terms (note: the 2015 Deepview audit resulted in Milwaukee County recovering \$98,000 from Optum).

Finally, Optum has also agreed to a market check provision for the 3rd year of the contract, allowing Milwaukee County to renegotiate the contract, or terminate the contract early, in the event that the available terms in the PBM market improve.

Medicare Pharmacy Administration

The EGWP (Employer Group Waiver Plan) administrative fee is a separate agreement with Optum. For 2017, the administrative costs will increase to \$10.43 PMPM. This rate is consistent with the prevailing administrative fees in the market.

Medical

The medical proposal primarily addresses administrative fees. The current rates are scheduled to increase by 2% in 2017. This remains unchanged in the proposal. The rate will be frozen for two years added to the contract (2018 & 2019).

UHC Schedule of Medical TPA Fees Per Employee Per Month (PEPM):

	Current Terms	2017	2018	2019
Base TPA Fee	\$29.30	\$29.89	\$29.89	\$29.89
Care24 Nurseline ¹	\$0.80	\$0.80	\$0.80	\$0.80
Total TPA Fees	\$29.52	\$30.69	\$30.69	\$30.69

Although this the medical proposal is essentially a status quo offer with a rate freeze, it is worth noting that the admin fees charged by UHC are among the lowest in the market. The closest viable competitor typically charges admin fees in excess of \$50.00 PEPM. Further, UHC continues to offer the strongest broad network in the Milwaukee market, capturing in excess of 96% of our overall claims, with provider discounts exceeding their peers. Absent converting to a narrow network that restricts provider access, UHC’s offer is the strongest possible financial terms available in this market.

Both the City of Milwaukee and MPS concurred with this conclusion, and are recommending a similar contract renewal with their respective policy makers.

Medicare Advantage

Medicare Advantage pricing has remained relatively stable since the County’s transition in 2015. The proposed rate for 2017 is \$60.36 PMPM (4% increase over 2016). This will be factored into the proposed 2017 fringe budget.

Requested Action: The Director of Benefits, Department of Human Resources requests authorization to execute a three-year extension of the current contracts with United Health Care and Optum Rx for Medical and Pharmacy.

- CC: County Executive Chris Abele
- Raisa Koltun, Chief of Staff
- Kerry Mitchell, Chief Human Resources Officer
- Colleen Foley, Corporation Counsel
- Supervisor James “Luigi” Schmitt, Chairman, Personnel Committee
- Supervisor Peggy West, Chairwoman, Finance & Audit Committee
- Kelly Bablitch, Milwaukee County Board of Supervisors Chief of Staff
- Steve Kreklow, Director, Office of Performance, Strategy, and Budget
- Stephen Cady, Comptroller’s Office