



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 Willie Johnson, Chairman, 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

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(ITEM) From the Director of Benefits, Department of Human Resources, requesting authorization to execute contract extensions with UnitedHealthcare and Optum Rx for Third Party Administrative (TPA) services for Milwaukee County’s medical and pharmacy plans effective January 1st, 2017 through December 31st, 2019 by recommending adoption of the following:

A RESOLUTION

WHEREAS, Milwaukee County’s current contract with UnitedHealthcare for TPA services for the Milwaukee County and Milwaukee Transit Services health plan expires on December 31st, 2016; and

WHEREAS, Milwaukee County’s current contract with UnitedHealthCare’s subsidiary, Optum Rx, for Pharmacy Benefit Manager services for the Milwaukee County and Milwaukee Transit Services health plan expires on December 31st, 2016; and

WHEREAS, Milwaukee County, in coordination with Willis of Wisconsin, Milwaukee Transit Services, the City of Milwaukee, and Milwaukee County Public Schools evaluated a proposal for a 3-year contract renewal; and

WHEREAS, UnitedHealthCare’s combination of administrative costs and network access provide the optimal financial performance available to Milwaukee County’s health plan; and

WHEREAS, the pharmacy pricing terms offered by Optum Rx continue to lead the market; and

WHEREAS, UnitedHealthCare and Optum Rx combine to provide the efficient, high-quality coverage options that Milwaukee County has designed for its active employees, pre-Medicare, and Medicare-eligible employees; and

WHEREAS, UnitedHealthCare has a successful track record of complying with and exceeding Milwaukee County’s disadvantaged business enterprise goals; and

WHEREAS, UnitedHealthcare was found to be uniquely positioned, by virtue of the strength of their provider network contracts in the greater Milwaukee area, to administer the health plans for Milwaukee County, Milwaukee County Transit, the City of Milwaukee, and Milwaukee Public Schools; now, therefore

BE IT RESOLVED, that the Director of Employee Benefits, Department of Human Resources, is hereby authorized to execute contract amendments with UnitedHealthcare and Optum Rx extending services for Milwaukee County/Milwaukee Transit Service’s group health plans for active employees and retirees from January 1, 2017, continuing through December 31st, 2019.

MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: August 4, 2016

Original Fiscal Note

Substitute Fiscal Note

SUBJECT: Request for authorization to extend the Medical and Pharmacy contracts with UHC through the 2019 plan year

FISCAL EFFECT:

- | | |
|--|--|
| <input checked="" type="checkbox"/> No Direct County Fiscal Impact | <input type="checkbox"/> Increase Capital Expenditures |
| <input checked="" type="checkbox"/> Existing Staff Time Required | <input type="checkbox"/> Decrease Capital Expenditures |
| <input type="checkbox"/> Increase Operating Expenditures
(If checked, check one of two boxes below) | <input type="checkbox"/> Increase Capital Revenues |
| <input type="checkbox"/> Absorbed Within Agency's Budget | <input type="checkbox"/> Decrease Capital Revenues |
| <input type="checkbox"/> Not Absorbed Within Agency's Budget | |
| <input checked="" type="checkbox"/> Decrease Operating Expenditures | <input type="checkbox"/> Use of contingent funds |
| <input type="checkbox"/> Increase Operating Revenues | |
| <input type="checkbox"/> Decrease Operating Revenues | |

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	0	-\$1,600,000
	Revenue		
	Net Cost		
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. ¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions/interpretations that were utilized to provide the information on this form.

A.) This item authorizes the Benefits Division to extend contracts with United Health Care and Optum Rx to provide administrative Medical and Pharmacy services and the voluntary fully-insured Medicare Advantage option through the 2019 plan year.

B.) There is no impact to the current year, other than the time of existing staff. The contract extension modifies existing financial terms, leaving all other terms unchanged, and extends the agreements through 2019. The proposal includes a market check provision for 2019. Fully-insured Medicare Advantage rates are subject to a rate renewal on an annual basis.

C.) There is no impact to the current year. All costs in subsequent years will be reflected in the org.1950 (non-departmental fringe benefits) budgets.

D.) The savings projection was developed by Willis Towers Watson's actuaries, and were subsequently vetted by the Benefits Division. Pharmacy savings are derived by applying the proposed terms to the current enrollment and utilization. Changes to enrollment or utilization will cause a change to savings (positive or negative).

Department/Prepared By Matthew Hanchek, Director of Benefits, Human Resources

Authorized Signature



Did DAS-Fiscal Staff Review? Yes No

Did CDBP Review?² Yes No Not Required

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

² Community Business Development Partners' review is required on all professional service and public work construction contracts.