

COUNTY OF MILWAUKEE
DAS – DIVISION OF EMPLOYEE BENEFITS
INTER-OFFICE COMMUNICATION

DATE : July 5, 2011

To : Chairman Lee Holloway, County Board of Supervisors

FROM : Gerald Schroeder, Interim Director – Employee Benefits Division



SUBJECT: **Report from the Interim Director, Employee Benefits Division, requesting authorization
For a 3-year contract for the administration of Milwaukee County's medical plan coverage.**

Issue/Background

Milwaukee County's contract with UnitedHealthCare (UHC) expires as of 12/31/2011. As a result, the Employee Benefits Division has been tasked with identifying a vendor for medical services, excluding prescription drugs, effective 1/1/2012.

With the assistance of our health care benefits consultants, Cambridge Advisory Group, Milwaukee County issued a Request for Proposal (RFP) for a third party administrator (TPA) to address the following objectives:

- Provide effective administration for Milwaukee County's self-funded medical plans for active employees and retirees;
- Provide claims data, clinical support, and cost management recommendations to the Employee Benefits Division.

The RFP responses were to include the following components:

- Administration of Milwaukee County's PPO and Managed Care Plan Designs;
- Administration of Coverage for Active Employee, Pre-Medicare Retiree, Medicare-eligible Retiree, and COBRA groups;
- Clinical Services (e.g. Utilization Review, Acute and Large Case Management);
- Provider Network Contract Management.

Four responses to the RFP were submitted. Responders to the RFP included: United Health Care (UHC), Anthem, Humana, and WPS. All responses were reviewed independently by Cambridge Advisory Group. WPS withdrew their response upon clarification of the process for evaluating provider networks. As a result, the three remaining responses were all included as finalists.

Finalist Review Process

On Monday, May 16th and Tuesday, May 17th, a review panel consisting of Matthew Hanchek - Fiscal Benefits Manager, Gerald Schroeder – Interim Benefits Director, Heather Giza - Health Benefits Coordinator, Rick Ceschin - County Board Research Analyst, and Justin Rodriguez – DAS Fiscal Analyst, was formed to evaluate finalist presentations.

Finalists were given one hour to present their best and final proposal to the review panel. Additional time was also allotted to each to provide time for questions and answers from the Panel. At the conclusion of all presentations, the Panel and Cambridge reviewed the results of each finalist and reached a consensus on the rankings, pending an updated financial analysis from Cambridge including each vendor's best and final offer.

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Highlights of Finalist Presentations:

UnitedHealthCare

As the incumbent medical administrator, UHC offers the easiest transition to a new contract. UHC has a strong history of customer service and responsiveness to requests made by Milwaukee County. The Benefits Division is completely satisfied with the administrative performance and service provided during the 2009 through 2011 contract.

UHC utilizes a broad provider network which includes nearly all of the providers utilized by employees and retirees in the Milwaukee Metro area.

While the other vendors' bids were more financially competitive than they were in 2008, UnitedHealthCare continued to offer the deeper validated discounts, and less expensive administrative fees than all other bidders. The cost advantage, coupled with the proven history of service to the County and UnitedHealthCare's provider network access, gave UHC an advantage over all the other finalists.

Anthem

Anthem, like UnitedHealthCare, offers the advantage of being able to utilize the same network for both the PPO and Manage Care plans. Anthem offered a competitive provider network in the Milwaukee area, the addition of the UW system in the Madison area, and strong nation-wide provider networks. Since the 2008 RFP, Anthem has made improvements to network access and provider reimbursement rates in the Milwaukee Market. Access to data and decision making tools were also significantly enhanced.

Anthem's response demonstrated they are a viable alternative to UnitedHealthCare, and they were able to match UHC in many of the evaluated categories. Anthem was willing to contractually guarantee a higher overall discount than the guarantee offered by UHC, however, an analysis of actual claims incurred by the County in 2009 and 2010 demonstrated that the validated discounts through Anthem still lagged behind.

Humana

Humana has significant market share in the Milwaukee area through their role as the administrator for the Milwaukee's Business Health Care Group. By utilizing a relatively narrower "Humana Preferred Network" (HPN), Humana has made significant strides in their network discounts, provider access, and support tools since the 2008.

The review panel expressed concerns that the narrower Humana Preferred Network would create significant network access disruptions for employees by excluding the Wheaton Franciscan providers, which could be a point of contention with County bargaining groups. Further, Humana's bid was contingent on Milwaukee County joining the Milwaukee Business Health Care Group. In effect, the County would be obligated to accept fee schedules and other

terms set by the coalition, as opposed to having the ability to independently negotiate certain terms. The review panel expressed concerns over limiting the County's autonomy and flexibility.

In addition to the comments by the review panel, Cambridge Advisory Group noted that Humana presented conflicting responses to the RFP regarding the providers included in their rate guarantee and the providers cited in the network analysis. Upon request, Humana did clarify the actual network terms, but the lack of transparency was cited as a concern during the process.

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Cambridge Analysis

Cambridge Advisory Group was asked to perform analysis of the bids independent of the review panel to assess the relative strength of each bid. To accomplish this, each bidder was required to complete a seven-section questionnaire where the strength of each answer was assigned a score based on Cambridge's review.

As anticipated, all three finalists were proven capable of administering the County's plans, with all three receiving the highest possible scores across several categories. However, UnitedHealthCare and Anthem distinguished themselves with an average score of 93%, compared to 88% for Humana. UHC had a clear advantage in the bid assumptions, requirements, and deliverables, while Anthem was rated higher on information management.

Humana lagged UHC and Anthem in the bid assumptions, requirements and deliverables, member service, claims and eligibility sections. Areas affecting Humana's score in these sections include:

- Only a two-year fee proposal and guarantee, when three years were requested;
- Restrictions on audit agreement;
- Member satisfaction scores;
- Customer service turnover.

Network Analysis of Bids

In addition to evaluating the questionnaire, Cambridge Advisory Group was asked to analyze the financial terms and strength of the networks proposed by applying actual County claims history:

Provider Network Discounts*			
	UnitedHealthCare	Humana	Anthem
Proposed	51.90%	49.10%	38.40%
Guaranteed	48.30%	48 – 50%	51.80%
Repriced with County-Specific Claims	53.10%	48.80%	48.50%
Rank	1	3*	2

*Discount analysis is based on in-network claims only.

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Monthly Base ASO Fees			
YEAR	UnitedHealthCare	Humana	Anthem
2012	\$27.57	\$31.67	\$27.57
2013	\$27.57	\$32.63	\$33.07
2014	\$27.57	\$32.63*	\$34.06
Total Annual Base ASO Costs			
YEAR	UnitedHealthCare	Humana	Anthem
2012	\$3,349,424	\$3,847,525	\$4,017,608
2013	\$3,349,424	\$3,964,153	\$4,017,608
2014	\$3,349,424	\$3,964,153	\$4,137,881
Total	\$10,048,272	\$11,775,831	\$12,173,097
Difference		\$1,727,559	\$2,124,825
Rank	1	2	3

* Humana did not guarantee a rate for 2014. For the purpose of this analysis the 2013 rate was carried forward. The business coalition's negotiations for 2014 could increase or decrease this fee for all coalition members.

Provider Network Analysis			
	UnitedHealthCare	Humana	Anthem
Claims	95%	85%	96%
Patients	94%	86%	96%
Total Paid	95%	85%	96%
Rank	2	3	1

* Based on clarification by Humana, the Humana Preferred Network (HPN) was applied locally while the Humana PPO wrap was assumed outside of the area. HPN excludes Wheaton Franciscan.

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Annual Cost Comparison:			
Repricing Discounts	UnitedHealthCare	Humana**	Anthem*
Inpatient Facility	49.6%	44.2%	40.3%
Outpatient Facility	54.6%	50.9%	53.7%
Physician	53.6%	49.4%	47.3%
Aggregate Discount	53.1%	48.8%	48.5%
Estimated Dollar Difference from UnitedHealthcare Trended to 2012			
Inpatient Facility	\$0	\$2,540,058	\$4,405,806
Outpatient Facility	\$0	\$2,710,438	\$665,201
Physician	\$0	\$3,877,287	\$5,848,704
Total Discount Difference	\$0	\$9,127,783	\$10,919,710
Administrative Fees Per Year			
Administrative Fees	\$3,349,424	\$3,847,525	\$4,017,608
Difference in Administrative Cost	\$0	\$498,101	\$668,184
Total Difference in Annual Cost vs. UHC	\$0	\$9,625,884	\$11,587,894

* Humana and Anthem included Medicare Claims in their repricing file. Excluding Medicare claims would weaken the overall reported discounts.

** Humana's discounts were applied to Wheaton Franciscan claims in this analysis. The exclusion of Wheaton would result in loss of discounts, mitigated by the patients who are willing to change care providers.

Note: The analysis in this report is only intended for ranking bids. Actual financial impact will be dependent upon enrollment, provider mix, utilization and trend. A complete actuarial analysis will be required to project costs for budget purposes for 2012 and beyond.

Final Rankings

Based upon the finalists presentations, and analysis by Cambridge, the review panel ranked the finalists as follows:

1. United Health Care
2. Anthem
3. Humana

Recommendation of the Panel

UnitedHealthCare has served Milwaukee County since 2009 and has consistently exceeded expectations in plan management, financial performance, and customer service. They have proven to be active and willing partners in the County's disadvantaged business enterprise goals and have demonstrated flexibility in accommodating County initiatives.

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Although all bids were more competitive in 2011 than the prior RFP, the offer from UnitedHealthCare was superior in discounts and fees. United Health Care's provider networks provide the County the most comprehensive access to providers in the Milwaukee area. Additionally, UHC scored as highly for service to patients and clients, implementation, and clinical services. Because of these findings, the Review Panel considered United Health Care's bid the best total value to Milwaukee County.

Disadvantaged Business Enterprise (DBE)

After working through challenges in early 2009, UnitedHealthCare has fully complied with Milwaukee County's Disadvantaged Business Enterprise program. In 2010, UHC voluntarily exceeded their required goal. UnitedHealthCare has also been willing to accommodate Milwaukee County's preference for utilizing local DBE firms when practical, including an ongoing flu shot program and recent building maintenance projects at their facility. UHC has completed updated forms to continue their full compliance in 2012 and beyond, and will continue to work with our Community Business Development Partners to identify additional local opportunities for participation. The anticipated 2012 goal amount is approximately \$570,000.00.

Summary / Requested Board Action

UnitedHealthCare's response to the County's request for proposal demonstrated their commitment to being a valuable strategic partner. United Health Care's bid was evaluated by a review panel including members of Benefits, DAS Fiscal, and County Board staff. The review panel found that UHC's bid was superior to all other bids regarding administrative costs, provider discounts, and network access. These findings were supported by analysis from Cambridge Advisory Group and were shared with the Employee Benefits Workgroup. Further, UHC has a proven history of excellent service to the County and compliance with the County's DBE goals.

Based on the review panel recommendations, the Employee Benefits Division, with assistance from Corporation Council, the Employee Benefits Work Group, and the Community Business Development Partners negotiated an addendum to the original contract extending services from January 1, 2012 through December 31, 2014. A copy of the negotiated contract addendum is included with this report.

The Employee Benefits Division requests authorization to execute the attached contract addendum with UnitedHealthCare for the administration of Milwaukee County's employee and retiree medical plans.

Attachments

Cc: County Executive Chris Abele
George Aldrich, Chief of Staff, County Executive's Office
Pat Farley, Director of Administrative Services
John Jorgensen, Acting Corporation Counsel
Fred Bau, Interim Director of Labor Relations
Rick Ceschin, Senior Research Analyst, County Board
Steve Cady, Fiscal and Budget Analyst, County Board
Employee Benefits Workgroup
Carol Mueller, Chief Committee Clerk
Jodi Mapp, Personnel Committee Clerk