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Governments explore group purchases

MPS, city, county could save money in health care benefits

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As health care costs continue to rise and government entities face reduced funding in the state budget, Milwaukee's cash-strapped taxing bodies are exploring combining their employee benefits to save money.

Representatives from the city of Milwaukee, Milwaukee County, Milwaukee Public Schools, Milwaukee Area Technical College and the Milwaukee Metropolitan Sewerage District have been meeting for about three months to discuss possible cost savings that could be realized by purchasing prescription drug coverage and health insurance together.

Combined, the city, county, MPS, MATC and MMSD spend about \$570 million a year on health benefits which, in turn, is paid for with taxpayer dollars. So far, the governing bodies have agreed first to go after prescription drug costs.

The city will develop a request for proposals by the end of May for its prescription benefit management and has invited the other taxing bodies to join the RFP.

"We may already be doing what's best for our individual governmental bodies," said Mike Brady, employee benefits director for the city of Milwaukee. "But we want to be able to answer the mayor and the county executive when they ask if we could save money by working together."

The city currently spends \$20 million a year on prescription benefits — just a fraction of the \$135 million it spends on total health care costs.

Brady said if the taxing bodies can secure a lower cost by purchasing drugs together, then they will begin exploring combining public employees in a health insurance purchasing pool to drive down costs across the board.

Milwaukee Ald. Michael Murphy, along with Marvin Pratt, who served as interim Milwaukee County executive, began working together on a possible health care consolidation earlier this year.

Pratt said the decision was based on the fact that local governments took a hit in the state budget and are now forced to look for more efficiencies.

Murphy sees combining prescription drug coverage as the first small step, and anticipates that overall health care purchasing can be combined sooner than later.

"We're looking for greater leverage and also maintaining good coverage for our employees," Murphy said.

Purchasing prescription drug coverage together is a good start, but David Riemer, director of Community Advocates Public Policy Institute, Milwaukee, believes the most effective way to lower costs for government is to create a purchasing exchange for all health care coverage.

That exchange must include a very large pool of participants that have average risk and an incentive to pick the lowest cost plan, all traits of the governmental entities in Milwaukee County, Riemer said.

By creating a large pool too big for an insurance company to ignore, the health care industry is forced to offer the group a low-cost, high-quality product to retain its business.

"Don't we want plans to be under intense and enduring pressure to hold down cost?" Riemer said. "That's what is missing in health care. We need to get rid of the massive waste and inefficiency that permeates our health care system, which is why costs are so high."

The state health insurance plan, which covers about 70,000 employees, has more than half of its members in Dane County because that is where the capital and the **University of Wisconsin-Madison** are located. As a result, the pool is a large purchaser in only one county.

The result, Riemer said, is individual health care coverage in Dane County costs \$1,000 less annually and family coverage is about \$3,000 less than the state average.

Milwaukee County could see the same results if governmental bodies form a health insurance purchasing pool, Riemer said.

The key is to get all government employees to participate in the health insurance pool, even if they don't all choose the same benefits once they are in, he said.

"The market is supposed to drive sellers out of fear of their customer's satisfaction," Riemer said.

Milwaukee County Executive Chris Abele pledged to work with stakeholders to combine employees from the county, the state of Wisconsin, local municipalities, school districts and other government entities to establish and focus on growing a purchasing pool large enough to negotiate lower costs in the health care marketplace.

"There is no question that health care costs are placing an enormous strain on government budgets at every level, but there is strength in numbers," Abele said in a statement.

Andrew Serio, large group consultant with The Insurance Center, Madison, said because southeast Wisconsin's health insurance market is dominated by three large carriers — UnitedHealthcare, Anthem Blue Cross and Blue Shield, and Humana — the governmental bodies should also attempt to go after the health care providers for lower costs.

Serio said the group should create an RFP for health care systems and ask providers to create a third plan — an exclusive provider organization — that could be offered to employees along with their current options.

UNION BUY-IN NEEDED

One sticking point in all of this, however, could be labor unions.

The majority of city, county, MPS, MATC and MMSD employees are represented by a labor union, which would have to agree to changes in benefit coverage.

MPS spokeswoman Roseann St. Aubin said while the school district has been part of discussions on potential partnerships, union contracts have the district committed to current health plans through 2013.

Sherry Zaruba, human resource manager with MMSD, agreed that having some employees who are represented by unions and others who are not will make it more difficult to streamline a health care program. However, Zaruba said MMSD is interested in any changes that could save money.

Riemer, who led the failed Healthy Wisconsin bill in 2007, said the simplest solution would be for the state Legislature to pass a law that requires all government employees to be in the same health care purchasing pool.

In absence of a bill, Riemer said another approach would be for the governments to negotiate an agreement together, then go to their unions for approval.

"The problem is not the unions," he said. "The problem is management. Government employers think they are better off each cutting their own deal. They have not been smart enough to realize there is strength in numbers."

Annual health care costs

Milwaukee Public Schools*: \$257 million

Milwaukee County*: \$138 million

City of Milwaukee: \$135 million

Milwaukee Area Technical College: \$31.7 million

Milwaukee Metropolitan

Sewerage District: \$8 million-\$9 million

**Numbers are estimates. Neither MPS nor Milwaukee County would confirm figures.*

Source: Taxing bodies, Public Policy Forum