

# MERCER



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## Study of Southeast Wisconsin Community Healthcare Premium Costs

Greater Milwaukee Business  
Foundation on Health, Inc. **GMBFH**

Greater Milwaukee Business Foundation on Health, Inc.

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# Uses of this Study

- This report is intended for use in collaborative quality and cost improvement initiatives. We ask that it not be used for public relations or general media purposes.
- Please review the full report (including Appendices) and use the information in its entirety. Market comparisons using only one measure or even a limited number of comparisons can be misleading.

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# Study Overview

# Study Background

- Greater Milwaukee Business Foundation on Health, Inc. (GMBFH, Inc.) commissioned two previous studies comparing Southeast Wisconsin average commercial healthcare premium costs to Midwest average commercial healthcare premium costs.
  - The initial calendar year 2000 study suggested Southeast Wisconsin's per-employee, per-year (PEPY) healthcare premium costs were approximately 55% higher than the Midwest average.
  - The subsequent 2003 study suggested Southeast Wisconsin's average PEPY healthcare premium costs were approximately 39% higher than the Midwest average.

# Study Purpose

- GMBFH Inc. commissioned Mercer and Milliman to update the previous comparisons of Southeast Wisconsin healthcare premium costs to the Midwest average through 2007 using the most recent available data.
- The primary objectives of the study are to:
  - Compare 2007 healthcare premium costs in Southeast Wisconsin to Midwest and National benchmarks
  - Determine causes of 2007 Southeast Wisconsin healthcare premium cost variation from the Midwest average
  - Evaluate how 2007 Southeast Wisconsin healthcare premium costs have changed relative to the Midwest average since 2003

# Summary of Results

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Southeast Wisconsin healthcare premium costs were approximately 9% above the Midwest average in 2007, a significant decrease from the 39% variance in the 2003 study

# Summary of Results *(continued)*

- We examined the following components to determine how Southeast Wisconsin healthcare premium costs compare to the Midwest average:
  - Demographics
    - The 2007 demographics of the Southeast Wisconsin population resulted in approximately 4% higher costs than the Midwest average, primarily as a result of a higher average age (43 vs. 41)
    - Demographic differences resulted in 5% higher costs than the Midwest average in 2003
  - Plan Design
    - Southeast Wisconsin employers have historically offered richer plan designs than the Midwest average, though the impact has narrowed from 5% in 2003 to 2% in 2007

# Summary of Results *(continued)*

## – Utilization / Service Mix

- Southeast Wisconsin utilization and service mix was 6% **below** the Midwest average in 2007. This represents a significant change since 2003 when utilization and service mix impacts were estimated to be 2% **above** the Midwest average.

## – Provider Payment Levels

- Southeast Wisconsin 2007 provider payment levels were approximately 9% higher than the Midwest average, which is a significant decline from the 27% difference reported in 2003.

# Study Approach and Methods

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- Milliman and Mercer collaborated on this study
  - Methods are consistent with previous studies
  - All significant analysis and key assumptions were reviewed by each firm
- The study includes an analysis of 2006 and 2007 employer healthcare premium cost
  - The study population includes commercial members under age 65
  - Premium cost includes employer cost plus employee contributions
  - Data from 2006 were primarily used to validate 2007 findings
- Southeast Wisconsin average costs are compared to the Midwest average
  - Southeast Wisconsin included residents of Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington and Waukesha counties

# Study Approach and Methods *(continued)*

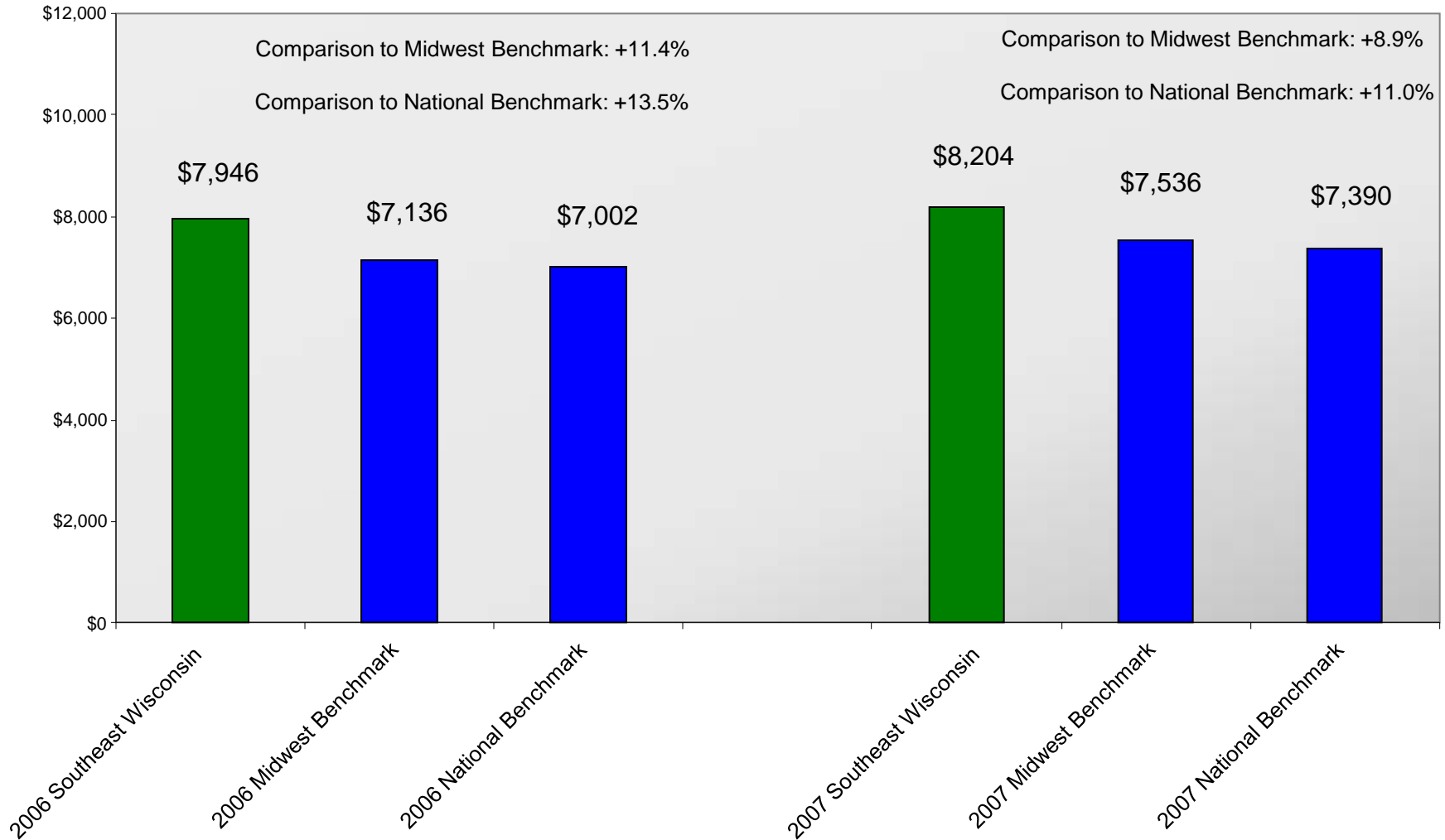
- Southeast Wisconsin PEPY cost estimates were based on 2007 medical and prescription drug claims and member data contributed by several area health plans.
  - Data represents more than \$1.7 billion in healthcare costs from approximately 450,000 members (i.e., employees and dependents) for each year
  - Claims data included provider billed charges but did not include allowed provider payments
  - Provider payments were estimated using market average discount information provided by Southeast Wisconsin health plans or information from the Wisconsin Hospital Fiscal Survey obtained from the Wisconsin Hospital Association
  - Plan design factors were developed using median benefit levels submitted for the Milwaukee area and comparing them to Midwest median benefit levels. Both data points are from the Mercer Survey

# Study Approach and Methods *(continued)*

- Midwest averages in this study are based upon the 2007 Mercer Survey of Employer Sponsored Health Plans average healthcare plan cost per active employee
  - Per Employee Per Year (PEPY) costs include medical, prescription drug, administrative costs, mental health, vision and hearing. Dental is not included.
  - PEPY costs is a blend of PPO, POS, HMO and CDHP plans, weighted by survey-reported participation percentages
  - Administrative costs are based on Mercer ASO fee survey results

# Healthcare Premium Cost Analysis

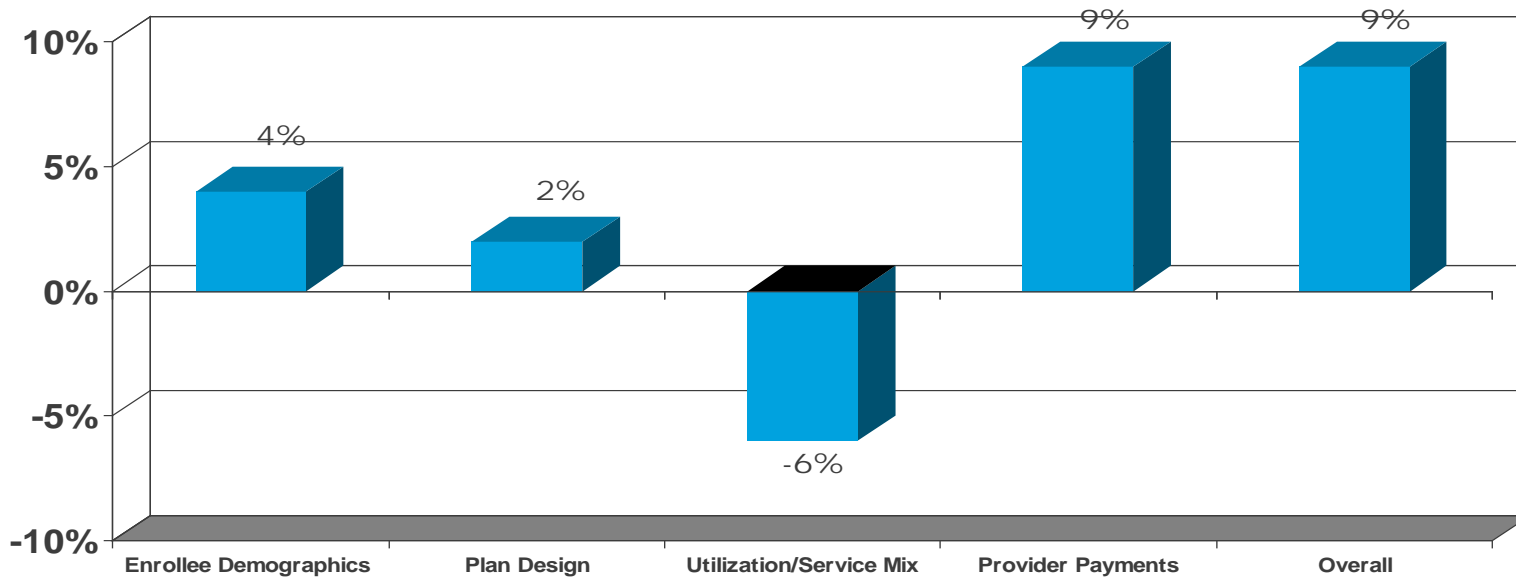
# Total Per Employee Per Year (PEPY) Healthcare Premium Costs



# Comparison of PEPY Healthcare Premium Costs to Midwest Benchmark

Comparison of Healthcare Premium Costs to Midwest Benchmark - 2007	
Southeast Wisconsin	\$8,204
Midwest Benchmark	\$7,536
<b>Variance</b>	<b>9%</b>

Components of Variance



# Demographics

- Southeast Wisconsin age / gender differences contributed 3% additional cost in 2007 compared to Midwest averages
- Southeast Wisconsin's slightly higher average contract size than Midwest averages contributed an additional 1% to total PEPY costs in 2007

	Southeast Wisconsin	Midwest Average
<b>Description</b>	<b>2007</b>	<b>2007</b>
Average Age (employee)	43.3	41.0
<i>Demographic Cost Factor</i>		
▪ Male	0.92	0.90
▪ Female	1.17	1.19
<b>TOTAL</b>	<b>1.05</b>	<b>1.02</b>
<i>Average Contract Size</i>	<b>2.30</b>	<b>2.27</b>

# 2007 Plan Design Provisions

- Southeast Wisconsin plan design provisions (primarily lower deductibles and copayments) resulted in 2% higher costs than the Midwest average in 2007

Plan Design Comparison	Southeast Wisconsin	Midwest Average
<b>In-network Deductible (PPO)</b>		
Individual	\$300	\$400
Family	\$650	\$800
<b>Physician Visit and Hospital Cost-Sharing (PPO)</b>		
Physician copayments – PCP	\$20	\$20
Physician copayments – Specialist	\$30	\$35
Hospital coinsurance	15%	20%
<b>Out-of-Pocket Maximums for Individuals (PPO)</b>		
Out-of-pocket maximum	\$1,500	\$1,500
<b>HMO</b>		
PCP copayments	\$15	\$15
Hospital deductible	\$370	\$250
Retail Rx copayments	\$7 / \$21 / \$39	\$10 / \$25 / \$42

# Utilization / Service Mix

- Southeast Wisconsin utilization and service mix patterns in 2007 were significantly different than the Midwest average
  - Hospital inpatient utilization (14 -16% lower)
  - Physician office visits (15% lower)
  - Emergency room visits (16% lower)

	Southeast Wisconsin	Midwest Average
<b>Utilization</b>	2007	2007
▪ Inpatient admissions per 1,000 members	56	67
▪ Inpatient days per 1,000 members	220	255
▪ Physician office visits per 1,000 members	2,414	2,837
▪ ER visits per 1,000 members	174	207
▪ Rx per 1,000 members	9,065	9,044

# Provider Reimbursement

- Southeast Wisconsin hospital payment levels were slightly higher than Midwest averages in 2007
- Southeast Wisconsin physician payment levels were 24% higher than Midwest averages in 2007

	Southeast Wisconsin	Midwest Average
<b>Reimbursement</b>	2007	2007
<b><i>Hospital</i></b>		
▪ Average cost per inpatient day	\$3,486	\$3,400
▪ Average cost per inpatient admission	\$13,758	\$13,600
<b><i>Physician</i></b>		
▪ As a percentage of the 2007 Medicare RBRVS Fee Schedule	180%	145%

# 2007 PMPM Allowed Claim Costs

- In general, higher Southeast Wisconsin outpatient facility utilization and physician payment levels are partially offset by lower physician and hospital inpatient utilization, resulting in 2007 PMPM allowed costs 6% higher than the Midwest average (approximately 2/3 of total cost difference)

	Southeast Wisconsin	Midwest Average
<b>Type of Service</b>		
▪ Professional	\$101	\$93
▪ Inpatient Hospital	\$62	\$72
▪ Outpatient Facility	\$70	\$51
▪ Mental Health / Chemical Dependency	\$9	\$8
▪ Radiology / Pathology	\$42	\$38
▪ Prescription Drugs	\$56	\$58
<b>Total</b>	<b>\$340</b>	<b>\$320</b>

# Summary – 2007 vs. 2003

- The Southeast Wisconsin 2007 healthcare premium costs have moved significantly closer to the Midwest average since the last study was completed in 2003

Comparison of Southeast Wisconsin PEPY Healthcare Premium Costs to Midwest Benchmark		
Components of Variance	2003	2007
Enrollee Demographics	5%	4%
Plan Design	5%	2%
Utilization / Service Mix	2%	-6%
Provider Payment Levels	27%	9%
<b>Total Variance from Midwest Average</b>	<b>39%</b>	<b>9%</b>

## Summary – 2007 vs. 2003 *(continued)*

- The relative improvement appears to be the result of:
  - Lower percentage increases in provider payment levels
  - Employer shifts to networks with higher provider discounts
  - Changes in utilization and service mix to lower cost alternatives
  - Benefit design changes to bring plan designs closer to the Midwest average
  
- In 2007, Southeast Wisconsin commercial premium costs were higher than the Midwest average and were higher than most other large Midwest cities.

# Interpretation Considerations (Caveats)

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- In preparing this information, we relied on information provided by Southeast Wisconsin commercial payers and the Wisconsin Hospital Association. We accepted this information without audit but reviewed the information for general reasonableness. Our results and conclusions may not be appropriate if this information is not accurate.
- This report was developed to provide comparisons of market average commercial PEPY health plan costs and may not represent the actual PEPY cost experience of individual employers.
- Our report does not reflect changes to medical costs in Southeast Wisconsin or other Midwest cities subsequent to 2007.

# Contact Information

# Contact Information

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# Appendices



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