



Pension & Health Benefits Committee

Agenda Item 6a

September 21, 2022

Item Name: Preferred Provider Organization Strategic Alignment

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension & Health Benefits Committee with an update on the Preferred Provider Organization (PPO) Strategic Alignment Project. The purpose of this work is to ensure that the PPO program is aligned with CalPERS FY 2022-27 Strategic Plan goal of exceptional healthcare, which ensures members have access to equitable, high-quality, and affordable health care. This agenda item provides the project overview, initial data analysis, and potential interventions for consideration, as well as market research and structural aspects of the PPOs. Recommendations for changes to the Basic PPO plans in 2024 will be brought to the committee for approval in November. Longer-term learnings and recommendations will be brought to the committee as part of the development of the solicitation for the FY 2025-29 PPO Program contract.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2022-27 Strategic Goal: Ensure our members have access to equitable, high-quality, affordable health care.

Background

At the June 2022 Pension & Health Benefits Committee meeting, the CalPERS team addressed challenges facing the Basic PPO program. The plans have experienced premium increases and volatility over the last few years. In 2021, the Basic PPO plans experienced higher than expected medical and pharmacy costs, investment-related losses, and snapback from buying down the 2021 premiums, resulting in a large reserve deficit. A five-year surcharge to the Basic PPO premiums was approved in 2022 to replenish reserves starting with the 2023 plan year. The team communicated plans to explore options to help address the challenges facing the PPO program and bring forth short and long-term interventions to address affordability.

The PPO Strategic Alignment Project also serves as the foundation for the upcoming PPO Contract Solicitation for FY 2025-29 to ensure alignment with the strategic goals, and the quality measures and health plan requirements contained in the Health Benefits Plan Health Maintenance Organization Solicitation currently underway.

Specifically, the objectives of the PPO Strategic Alignment are to:

- Identify interventions and benefit design changes to address cost drivers and align with strategic goals;
- Ensure the long-term viability of the CalPERS Gold product or ensure that CalPERS is otherwise able to continue to offer a PPO product that is price-competitive with most of its HMO products.
- Integrate lessons learned into other CalPERS plan offerings and the PPO Contract Solicitation.

The PPO Strategic Alignment Project includes the following concurrent workstreams:

- **Data Analysis:** CalPERS and Milliman are analyzing current and historical health care cost and utilization trends in our PPO and HMO Basic plans as well as benefit and network differences among the plans. Initial findings and observations are detailed below.
- **Industry Engagement:** CalPERS is conducting research into benefit design, network design, and member navigation opportunities for consideration. Further, CalPERS and Anthem are discussing options for consideration that could be implemented in 2024.
- **Identification and Assessment of Interventions:** CalPERS is developing a menu of options that include structural changes to the PPO portfolio as well as delivery system changes including cost and benefit analysis, short-term and longer-term feasibility, member experience, and alignment with strategic goals.

Data Analysis

Our review includes clinical and actuarial analyses of CalPERS claims data and research into potential interventions, including but not limited to, condition-specific programs, benefit designs, networks, and pharmaceutical programs.

PPO Trends and Cost Drivers

Through a comparative analysis of claims utilization and cost data between the PPO and HMO Basic plans, the team identified several notable elements that will serve to inform and focus our further research and ultimately our recommendations for final health care delivery options and future structure of the PPO program. Our initial observations of the data include:

- PPO health care costs have exceeded HMO costs for the past 5 years; however, recent PPO claims trends are similar to HMO claims trends.
- Higher unit costs rather than higher utilization are overwhelmingly driving the higher per member per month (PMPM) values in the PPO when compared to the HMOs. One service with notably higher utilization in the PPO is behavioral health services.
- Hospital outpatient surgery services, oncology, specialist care, outpatient labs and radiology services are some of the highest contributors to the cost differences between the PPOs and HMOs.
- Pharmaceutical costs are significantly higher in the PPOs, specifically among specialty drugs administered through the pharmacy benefit and chemotherapeutic drugs administered through the medical benefit. Additional investigation is needed to understand why these categories are costlier for the PPO basic plans compared to the HMOs.

High-Need High-Cost Members

CalPERS members with high medical needs represent a very small number of members but due to their complex conditions, impact a very large percentage of our health care costs.

CalPERS Basic members with high needs and costs look similar overall between the HMO and PPO, when comparing their PMPMs and risk scores. However, more high-cost members are in PPO plans when compared to HMO plans. Further analysis will be conducted to better

understand the differences between high-cost members enrolled in the Gold and Platinum products.

Chronic Disease Management

As part of our strategic goal of ensuring that all members receive the right care, at the right time, in the right setting, the CalPERS team has begun to analyze utilization and costs by chronic condition. Costs in our PPO plans for cancer care, certain common chronic diseases and behavioral health conditions are higher when compared to our HMO plans. Further analysis will help us understand which chronic conditions merit additional focus and if conditions are being managed differently in the HMOs versus the PPOs.

Industry Engagement

We are also conducting research into benefit design, network design and member navigation opportunities that may be potential options for consideration. Examples include:

- Engaging large self-funded employers, management/union trusts, government and employer purchaser groups who are facing similar challenges of rising costs, keeping enrolled populations healthy, and effectively addressing behavioral health access and health equity concerns.
- Collecting independent data and engaging in detailed discussions with entities serving large purchasers in providing member navigation and advocacy programs, virtual care options and programs targeting individuals with particular conditions.
- Engaging Anthem on possible interventions for consideration in the current contract period.

Identification and Assessment of Interventions

Based on the data analysis and industry engagement, we are developing a menu of potential interventions to address the underlying quality, experience, and affordability of the care provided through the PPO program. The metrics for this area are anchored in the cost and quality of care delivered to members. Below are potential initiatives:

- **Network design, composition, and structure:** High-quality provider networks that offer timely access to all necessary care are an essential element to achieve our strategic goals. The team is investigating the network design differences between PERS Gold and Platinum and how those networks relate to the offerings available through CalPERS HMO and EPO products to inform potential changes to improve cost, quality, and access.
- **Pharmaceutical strategies:** These strategies could include member support such as guiding members to use OptumRx Home Delivery to fill maintenance medication, lowering targeted copays to encourage the use of high-value drugs, and utilization management optimization to steer members to treatments that are clinically appropriate and cost effective.
- **Promoting effective primary care, virtual care, and care coordination:** High-quality primary care is the cornerstone of our health care system and our program. CalPERS wants to support members by ensuring access to effective primary care and that members with complex health issues are supported by a coordinated team of providers meeting each individual's needs. We're investigating innovative primary care models that build on our current statewide partnerships, the Advanced Primary Care measurement pilot, and are exploring how primary care and care coordination may be better delivered to our members.

- **Condition-specific delivery system support – behavioral health, oncology, chronic care.** Chronic health conditions require a comprehensive approach to care. We're investigating options to expand in-network availability of clinicians and options related to networks, benefit design, and alternative delivery models to continue to improve behavioral health services, and investigate other areas such as oncology care, maternity care, chronic care management, and musculoskeletal care. All options being considered are based on an analysis of members' health needs, utilization, and unit costs of our PPO program.
- **Fostering choice and access to higher value providers.** Linked to high-value networks and a delivery system that supports affordable, high-quality care, CalPERS is investigating initiatives that encourage members to engage with care navigators to help guide their care, and to find and use providers that have demonstrated better quality services. Examples of interventions under consideration are:
 - **Member navigation and support programs:** PPO members with complex, high-need conditions receive support for treatment and provider choice through care management programs. Expanding on these efforts with programs to better identify members at high risk and emerging risk who could benefit from support and accessing the best possible specialty care.
 - **Reference-based pricing:** Reference pricing is a benefit design strategy that aims to address unwarranted price variation and create an incentive for members to select lower priced care options for the same services. We're exploring expanding our existing reference-based pricing programs to include outpatient labs and high-cost radiology.
 - **Centers of Excellence Programs:** Based on the initial data analysis, we have identified opportunities to improve the care experience for high-complexity members while lowering overall costs through a Centers of Excellence program for targeted high complexity conditions. Such a program would apply the lessons from CalPERS' Centers of Excellence program for hip/knee replacement implemented in 2013, as well as the lessons from other purchasers and health plans.

Structural and Financial Mechanics

CalPERS has a range of financial, contractual and policy considerations that impact premiums that do not inherently relate to the underlying care delivery. This include mechanisms such as the nature of the funding of the PPO program (currently self-funded versus insured) and how risk between populations is managed.

CalPERS seeks to have payments to its contracted health plans aligned with incentives to ensure members get the highest quality care. Mechanisms to foster this alignment include putting the third-party administrator or health plan administering the PPO at risk for higher costs, while maintaining strong quality incentives. As CalPERS plans its solicitation for the FY 2025-29 PPO Program contract, it will review the structural elements as well as the program-specific strategic options to encourage lower-cost and higher quality care.

Budget and Fiscal Impacts

Overall, this project is intended to curb future premium increases in the PPO Basic program.

Benefits and Risks

Benefits;

- Stabilize the PPO program
- Provide cost effective services to our PPO members
- Align our strategic goals of access, affordability equity and quality across the CalPERS health program
- Reduce premium increases of the PPO program

Risks:

- Without PPO Strategic Realignment, the PPO products could become cost-ineffective and unsustainable.

Attachments

Attachment 1 – PowerPoint

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